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Better or Worse Off? Anchorage Households in 1988

After three years of recession, many Anchorage residents say their own finances are improving. But even though they're doing better themselves, they still think almost everybody else is going under.

In a household survey the Institute of Social and Economic Research conducted in Anchorage in late 1988, half the households reported that their *own* finances had improved since 1987 – but nearly 70 percent believed that *other people's* finances had worsened.

These answers show what a grip the recession has on the consciousness of Anchorage residents: even if their own financial conditions are improving, they believe that most others in the city must still be suffering losses.

This publication examines these and other findings of our October 1988 survey and similar surveys we conducted in 1987. The results help answer the big question in Anchorage in 1989: has the economy really turned around? In late 1988 and early 1989, there were several signs that the severe recession had subsided. The clearest of these was that the state economy added a few jobs toward the end of 1988 – after losing more than 20,000 jobs in the previous three years.

Our survey provides another measure of how the economy is doing: city residents' own assessments of how they are doing. We called 407 randomly selected households in the city in October 1988, asking them about their finances, employment, plans to move, interest in buying homes, housing costs, and more. Whenever possible, we compare their 1988 answers with the results of similar surveys done in June and November 1987.[1]

We found a number of encouraging signs when we compared the responses we got in 1987 and in 1988: less unemployment, more households with higher incomes and fewer with deteriorating finances, and more households willing to spend money on vacations and other non-essentials.

But we also found evidence of the lingering aftermath of the recession, particularly in the housing market. There are still many homeowners who would like to move but can't because they have negative equity – that is, they owe more than the current market value of their homes. Continuing low prices and rents and high vacancies also make owners of investment property – both residential and commercial – less optimistic about the economy than other city residents.

Before summarizing our survey results, below

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[1]To date ISER has conducted three Anchorage household surveys by telephone in what we hope will be a continuing series. The first was a survey of 550 households in June 1987. That survey was paid for by the Alaska Housing Finance Corporation. The second was in November 1987, a survey of 414 households paid for by the Alaska Power Authority. The most recent survey, in October 1988, was of households in Anchorage and the nearby Mat-Su Valley. Here we report just the results for the 407 households surveyed in Anchorage. This survey was paid for by the Alaska Housing Finance Corporation, the Alaska Department of Commerce, the Department of Transportation and Public Facilities, and the Department of Natural Resources.

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Better or Worse Off? Anchorage Households in 1988

This publication is based on telephone surveys of Anchorage households conducted by ISER in 1987 and 1988. The authors are ISER staff members Rosyland Frazier and Linda Leask.[2]

we briefly recap the conditions that led up to the recession.

BACKGROUND – THE RECESSION

During the first half of the 1980s, Alaska in general and Anchorage in particular went through a tremendous economic boom. Anchorage's population grew more than 40 percent in just five years, and the number of jobs in the city increased 43 percent.

State government spending created the boom by pumping tens of billions of dollars into the economy in just a few years. The money was oil revenue generated by the state-owned Prudhoe Bay field during the period when world oil prices reached as much as $34 a barrel.

A statewide recession began in late 1985, when falling oil prices curtailed state revenues and spending.[3] The recession worsened in early 1986, when oil prices dropped below $10 a barrel. Alaska began losing jobs and population, and those losses continued into 1988.

As Figures 1 and 2 show, Anchorage lost 28,000 residents – 12 percent of its population – between 1985 and 1988, as a lot more people left the city than moved in. During the same period, the city lost about 13 percent of its jobs (Table 1).

People leaving the city left behind thousands of empty houses and apartments. By mid-1988 nearly 17 percent of the city's housing was vacant. Anchorage's population has always been very mobile, with lots of people moving in and out as the economy moved up and down. There have been times of relatively high vacancies in the past.

Table 1
Alaska and Anchorage Employment,*
Selected Years

	1980	1985	1987	1988*
Alaska	170,900	230,700	210,100	212,300
Anchorage	80,050	114,500	101,200	100,600

*Benchmark average monthly employment figures of the Alaska Department of Labor. Figures for 1988 are based on actual figures for the first six months of the year and estimates for the last half of the year, based on a June 1988 benchmark.

[2]The authors thank ISER staff members Teresa Hull, Jack Kruse, Lee Gorsuch, Jim Kerr, and Eric Larson for their help.

[3]Nationally, a recession is said to be underway when the gross national product (GNP) does not increase – it either remains the same or declines – for two consecutive quarters. There is no comparable standard definition for a recession in a state economy. As a proxy, ISER economists define the start of a recession as the point at which the economy is losing more jobs than it is creating.

Figure 1. Migration to and Emigration from Anchorage 1985-88

Source: Municipality of Anchorage, Economic Development and Planning Department.

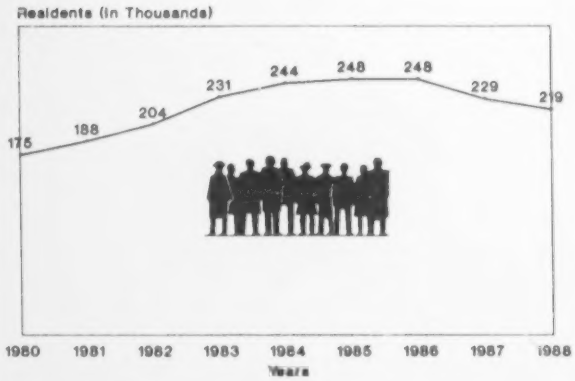
In 1980, for instance, in the economic slowdown that followed construction of the trans-Alaska oil pipeline, almost 14 percent of the city's housing was vacant.

The difference today is that the housing stock is so much bigger than it used to be. About 25,000 units were built in the city in the first half of the 1980s. As Figure 3 shows, a 17 percent vacancy rate in 1988 translated into more than 15,000 empty units. In 1980, a 14 percent vacancy rate amounted to less than 8,500 units. So while the 1988 vacancy rate was just 3 percentage points higher than the 1980 rate, there were almost twice as many empty units. That means Anchorage's population has to grow substantially before vacancies fall back into some normal range.

So much surplus housing, of course, has depressed prices a[illegible]ices of single-family houses are down [illegible]rcent from their 1985 levels, and condo[illegible]miniums have lost half their market value. Homeowners who bought when prices were much higher have found themselves over the past three years unable to sell their properties for anywhere close to what they owe on them. Negative equity has already caused thousands of Anchorage residents to default.

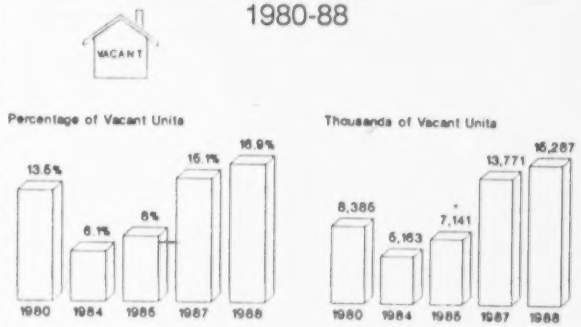
Recovery in the housing market will lag recovery of other parts of the economy. Using reasonable assumptions about future oil prices and state fiscal policy, ISER currently projects that Anchorage's population will grow in the range of 1 to 2 percent a year through the mid-1990s. At that rate of growth, it could be as late as 1995 before enough vacant housing is absorbed to push prices back to their 1985 levels.[4]

Figure 2. Anchorage Population, 1980-1988



Source: Municipality of Anchorage, Economic Development and Planning Department.

Figure 3. Anchorage Housing Vacancies Selected Years, 1980-88



Source: Municipality of Anchorage, Economic Development and Planning Department.

THE GOOD ECONOMIC NEWS

Improving Finances

More than half of Anchorage households say their finances improved between 1987 and 1988.

[4]See **Stabilizing Alaska's Housing Markets,** prepared by Matthew Berman and Linda Leask of ISER for the Alaska Housing Finance Corporation, March 1989.

In October 1988, 53 percent of Anchorage households we surveyed reported that their finances had improved during the previous year. (See Figure 4.) About one-quarter said their finances had remained the same, and nearly one-quarter reported being in worse financial shape.

These results were a marked improvement over what we found in a June 1987 survey, when just about 35 percent of households reported improved finances during the previous year, 26 percent said their finances had held steady, and 39 percent said their finances had worsened. The 1987 survey was taken when job and population loss in Anchorage were probably at their peak, and a finding that nearly 4 in 10 households had suffered losses was all too believable.

But the finding that half of Anchorage households improved their finances in 1988 – the third year of a severe recession – seemed unlikely. Anchorage continued to lose some jobs in 1988, although at a much slower rate than in 1987, and there were continuing reports of reduced or at least frozen wages. Also, household finances include more than just wages; they include, for instance, income from real estate investments – and we know that Anchorage real estate markets remained depressed in 1988.

We think improved finances among so many Anchorage households are probably due to a combination of several factors:

(1) Many people in all kinds of jobs reported earning more in 1988, despite widespread reports of wage freezes and cuts. Federal workers and military personnel were most likely to say their pay had increased, and state and local government workers and self-employed people were least likely.

(2) These are improvements in *household* rather than *individual* income. Some of the households were better off because more people in the household were working, as we discuss under Figure 8 below.

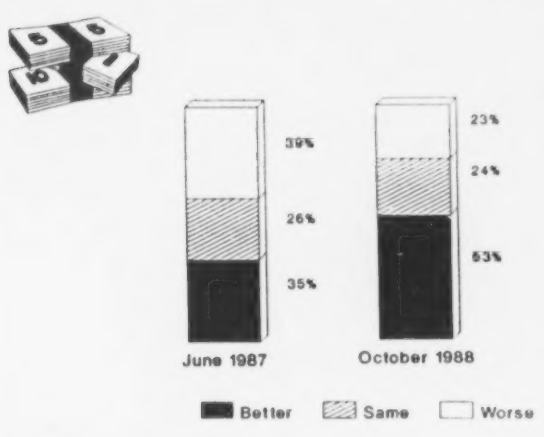
(3) Thousands of households hurt most by the recession had already left the city by late 1988.[5] If those people were still here and in our survey sample, we might find a higher proportion of households with deteriorating finances.

(4) Some people have arrived in Anchorage during the recession, and they likely came here because they were able to get better paying jobs than they had in the Lower 48 – so naturally their finances improved. Even during the recession there have been some jobs available. (As Table 10 shows, households that arrived in the city in 1988 had substantially higher incomes than recent arrivals at the time of our 1987 survey.)

(5) Some Anchorage households may have reported improved finances in 1988 because they took most of their losses earlier in the recession. For instance, suppose a household owned a fourplex as an investment, and was losing money in 1986 and 1987 because of high vacancies and low rents. By 1988, the owner may have been forced to default on the fourplex mortgage – losing the property but eliminating monthly mortgage payments.

Also keep in mind that our findings are relative: many people said they were doing better in 1988 than in 1987, which doesn't necessarily mean that they were doing as well as they'd like to be, or as well as before the recession. Finally, nearly a quarter of Anchorage households said their finances had worsened in 1988 – which shows that Anchorage's economic problems have by no means vanished.

Figure 4. How Do Your Household Finances Now Compare With a Year Ago? (Responses in Percentages)



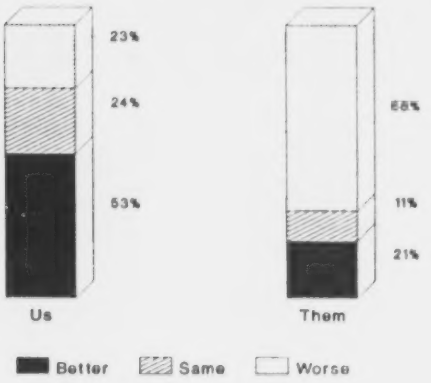
Source: ISER Anchorage household surveys. June 1987 = 551 responses, October 1988 = 407 responses.

[5] For a portrait of those who left the city earlier in the recession, see ISER's **Alaska Review of Social and Economic Conditions**, "The Effects of Alaska's Economic Recession on Anchorage Households," by Karen Foster, Linda Leask, and Teresa Hull, Vol. XXV, No. 2, May 1988.

Even Alaskans who find their own finances getting better think they are exceptions to the rule – that they are surviving the recession while most of their neighbors are not.

Figure 5 compares the answers we got to two questions in late 1988: how have *your* household finances changed over the past year? and how do you think finances of *other* households have changed?

Figure 5. Us and Them: How Respondents See Changes in Their Own and Other Households' Finances* (Percentage of Responses)



*Respondents were asked how their own finances had changed during the previous year and how they believed the finances of other households had changed.

Source: ISER Anchorage household survey. October 1988 = 407 responses.

Overwhelmingly, Anchorage households were inclined to say their neighbors were faring poorly: 68 percent believed finances of other households had worsened during the previous year. As we discussed under Figure 4 above, more than half of Anchorage households reported their own finances had improved, and another quarter said their finances had been stable.

It's hard to say why so many people who are now doing fairly well themselves think everybody else is sinking. Partly it may be that we are all so used to hearing bad economic news – and if that news is not affecting us personally, we assume it is affecting almost everybody else. But as we've seen, there are encouraging signs that the recession has subsided, and that the worst effects are now lingering mainly in a few areas of the economy – particularly construction and real estate – that will recover more slowly.

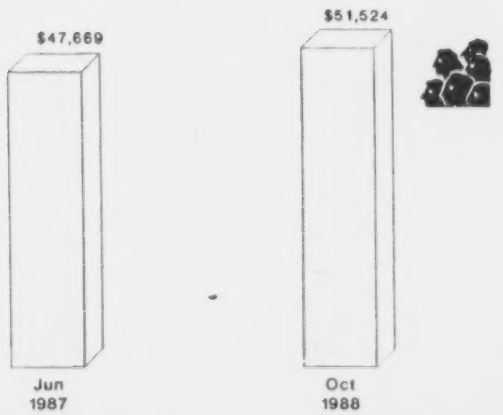
Average household income in Anchorage increased 8 percent between June 1987 and October 1988, growing from $47,500 to $51,500.

The higher average income among Anchorage households in 1988 (Figure 6) goes along with the improved finances reported in Figure 4. That improvement can be traced to the same factors we discussed above – many workers earning more, new arrivals earning more, more members of individual households working, and many of the households hurt most in the recession gone from the city by 1988.

Half of Anchorage households expect their finances to improve in 1989, and only six percent expect them to get worse.

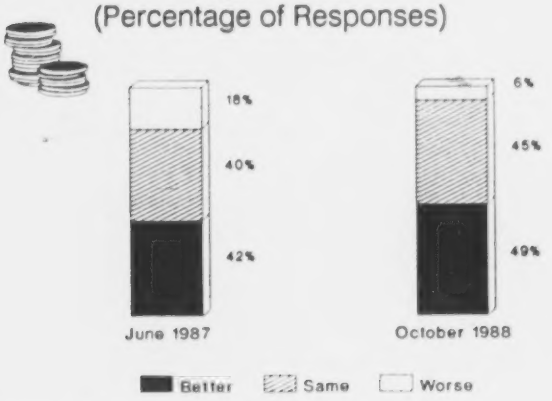
The increased optimism in Anchorage in recent months is evident in Figure 7, which shows 94 percent of households expecting to do better or at least hold their ground in 1989. Even in June 1987, however, a lot of Anchorage households were looking forward to better things – more than 80 percent expected to do better in the coming year. As much as anything else, these answers show that even in the face of the worst recession in recent times, most Alaskans still feel optimistic about their own futures in Alaska (but not neces-

Figure 6. Average Household Income Anchorage, 1987 and 1988



Source: ISER household surveys. June 1987 = 551 responses, October 1988 = 407 responses.

Figure 7. How Do You Expect Your Household Finances To Be a Year From Now?
(Percentage of Responses)



Source: ISER Anchorage household surveys.
June 1987 = 551 responses, October 1988 = 407 responses.

sarily about their neighbors' futures, as we discussed under Figure 5).

Although earnings of many Anchorage residents have increased, job benefits and hours worked have not.

As Table 2 shows, close to 70 percent of the workers in households we surveyed said their job benefits had not improved nor their working hours increased in 1988. About one in seven said their job benefits had been cut.

These were virtually the same results we got in our June 1987 survey, and they show continuing effects of the recession that might be masked by reports of higher incomes. Providing job benefits—particularly health insurance—is increasingly expensive. Many employers are holding down costs by not increasing benefits, or by increasing what workers themselves have to pay for the benefits.

We can't attribute this phenomenon just to the recession, however, because the cost of providing health insurance for employees has become a national issue in the last few years as medical costs and therefore health insurance premiums have increased so much throughout the country.

Table 2
How Have Your Job Benefits and Hours Worked Changed in the Past Year?*

	June 1987	October 1988
Job Benefits		
Increased	13%	18%
Same	70%	65%
Decreased	17%	16%
Hours Worked		
Increased	18%	17%
Same	69%	72%
Decreased	13%	11%

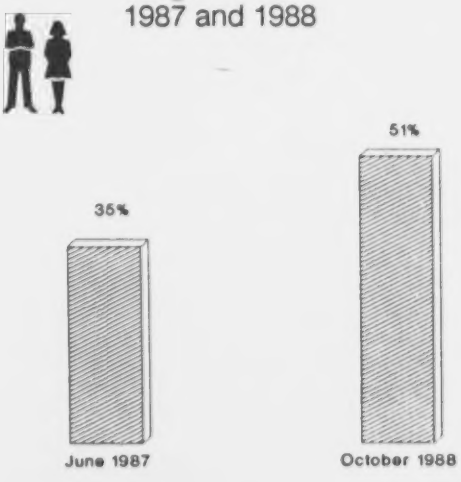
*Question was asked only of those who had worked at the same job one year or longer.

Source: ISER Anchorage household surveys, June 1987 = 551 responses, October 1988 = 407 responses.

Increased Employment

The proportion of Anchorage households with two wage earners increased dramatically between mid-1987 and late 1988, growing from 35 percent to 51 percent.

Figure 8. Anchorage Households with Two Wage Earners
1987 and 1988



Source: ISER Anchorage household surveys.
June 1987 = 551 responses, October 1988 = 407 responses.

The big jump in households with two wage earners (Figure 8) could be assessed in a couple of different ways. We could take it as evidence of the recession – that many households that needed only one wage earner in better times needed two to get along during the recession. But we think the change between 1987 and 1988 is more likely a sign of improving economic conditions – that more people who wanted to find jobs were able to in 1988. That assessment is supported by the figures in Table 3, which show Anchorage unemployment rates and labor force participation in 1987 and 1988. Also, the Municipality of Anchorage has reported that a substantial number of single-person households left the city during the recession – increasing the proportion of households remaining with more than one potential worker.

The share of working-age residents who either had jobs or were looking for work increased very substantially between mid-1987 and late 1988, growing from 62 percent to 83 percent.

Table 3 gives us two indications of improving economic conditions in Anchorage between June 1987 and October 1988 – lower unemployment and higher labor force participation.

Table 3
Unemployment and Labor Force Participation, Anchorage Adults[a]
1987 and 1988

	June 1987	October 1988
Percent unemployed at time of survey	10	7
Percent in labor force at time of survey[b]	62	83

[a]Results for all working-age adults in surveyed households.

[b]"In the labor force" includes those who have jobs or are looking for jobs. Those out of the labor force are those of working age who for one reason or another are not looking for jobs – including those "discouraged" workers who aren't looking for jobs because they think there aren't any.

Source: ISER Anchorage household surveys, June 1987 = 936 responses, October 1988 = 753 responses.

Labor economists define those in the labor force as those who either have jobs or are looking for work. Someone who reports being unemployed but not looking for work – for whatever reason – is considered out of the labor force. In June 1987, when Anchorage was losing hundreds of jobs per month, many people who wanted jobs might not have been looking – since they believed there were no jobs to be had. By the end of 1988, a combination of things had increased labor force participation: many people who couldn't find work had left the city, and of those who remained or had recently arrived, more had jobs or at least believed they had a better chance of finding work.

More Spending for Non-Essentials

Anchorage residents are spending more on vacations and entertainment and are more likely to consider making big, infrequent purchases like cars.

Nearly a third of Anchorage households surveyed in 1988 reported spending more for vacations and entertainment than they had a year earlier, and 36 percent said they were likely to buy cars in the coming year. Nearly half said they were spending more for groceries than they had a year earlier. Part of that increase is just a general increase in food prices, but it also reflects people's increased willingness to buy more expensive foods (Figure 9).

By contrast, in mid-1987, only 17 percent said they were spending more for vacations, and only about 20 percent were seriously thinking about buying cars.

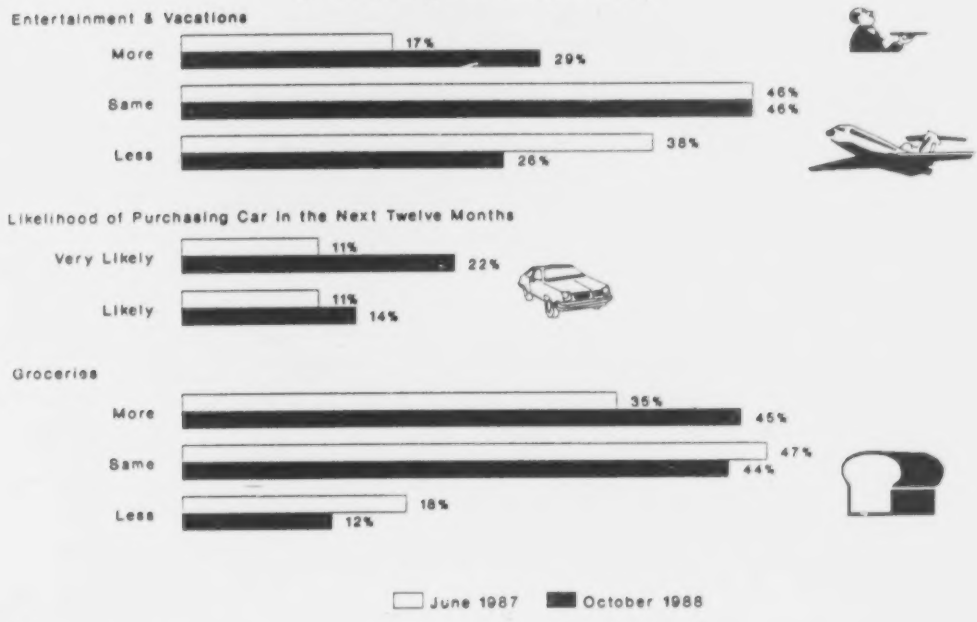
HOUSING: GOOD AND BAD NEWS

Taking Advantage of Lower Housing Costs

Nearly one in five Anchorage households reported spending less for housing in 1988 than in 1987, and half were paying the same.

For many years in Anchorage, housing prices and rents seemed to have only one direction – up. Then over the past three years prices and rents

Figure 9. Is Your Household Spending More or Less for These Items Than It Was a Year Ago? (Percentage of Responses)



Source: ISER Anchorage household surveys.
June 1987 responses = 551, October 1988 responses = 407.

fell lower and lower. This of course is bad news for those who now owe much more than the current market value of their homes or rental properties.

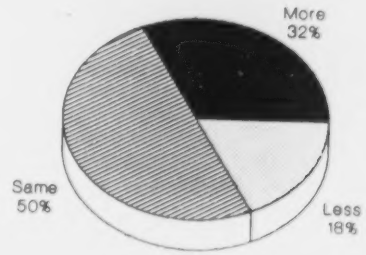
But it's good news for those who have been able to take advantage of lower prices and rents to move into nicer housing. ISER recently estimated that Anchorage households altogether were enjoying $35 million worth of improved housing quality per year (in 1988 prices) as the result of the "flight to quality" over the past several years.[6]

Figure 10 shows that nearly 20 percent of Anchorage households had reduced their housing costs in 1988 – and likely some of the 50 percent of households whose housing costs had stayed the same were in fact living in better quality housing but paying the same. (We did not ask this question in 1987, so we can't compare results.)

Many Anchorage residents are still planning to move within the city to get nicer or cheaper housing – or both.

In late 1988, 19 percent of Anchorage households described themselves as likely to move within the city in the coming year (Table 4). Of those, 85 percent said at least one of the reasons they planned to move was to get better housing, and close to 45 percent also said they

Figure 10. Is Your Household Spending More or Less for Housing Than a Year Ago? (Percentage of Responses)



Source: ISER Anchorage household survey, October 1988 responses = 407.

[6]See note 4 above for source.

Table 4

Plans to Move Within Anchorage and Reasons Why

	June 1987	October 1988
Percentage of Households Planning to Move Within Anchorage in the Coming Year	16%	19%
Reasons Cited for Planned Move		
To Improve Housing Quality	79%	85%
To Reduce Housing Costs	39%	44%

Source: ISER Anchorage household surveys, June 1987 = 551 responses, October 1988 = 407 responses.

hoped to reduce their housing costs. (Respondents could cite more than one reason for planned moves.)

Those percentages were even higher than they had been in mid-1987, when 16 percent of households said they were likely to move within the city and most cited improved housing quality as a reason for the move.

About 80 percent of Anchorage renters think it is a good time to buy homes, and 60 percent have considered doing so.

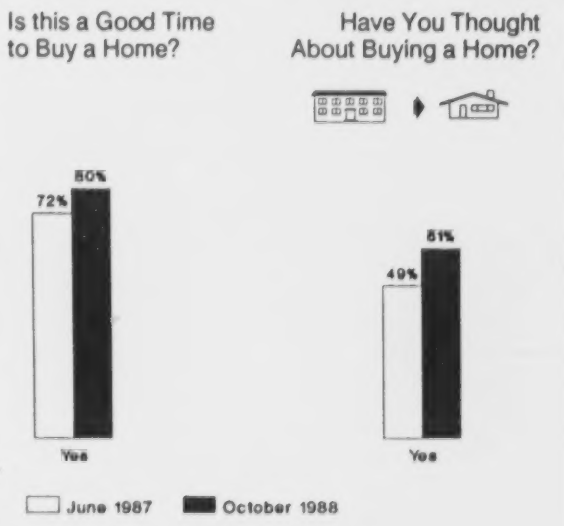
Figure 11 shows that most renters we surveyed in both 1987 and 1988 thought the depressed real estate market offered good opportunities for buying homes, and many had considered doing so. But the percentages in 1988 were even larger than in 1987 – 80 percent as compared with 72 percent who thought it a good time to buy homes, and 61 percent as compared with 49 percent who had considered buying. That increasing share of renters thinking about buying reflected the continuing drop in housing prices in 1988.

Other Effects of Depressed Prices and Rents

A third of Anchorage homeowners would sell if they could cover their mortgages. Most of those would move to other homes within the city.

In late 1988, after thousands of Anchorage homeowners with negative equity had already defaulted on their mortgages, a third of homeowners still reported that their mortgages

Figure 11. Renters' Thoughts on Buying Homes



Source: ISER Anchorage household surveys.
June 1987 responses = 551, October 1988 responses = 407.

exceeded the current market value of their homes (Table 5).

Almost all of those homeowners with negative equity said they would sell their current homes if they could cover their mortgages. Most of those – 23 percent of 32 percent – said they would move to other homes within Anchorage. Another 3 percent said they would move to the nearby Mat-Su Valley, and 6 percent said they would leave Alaska.

Table 5
Effects of Negative Equity Among Anchorage Homeowners, 1988

	Yes
Do you think the sale price of your home would be less than your mortgage?	34%
Would you move if you could cover your mortage?	32%
Where would you move?	
Within Anchorage	23%
To the Mat-Su Valley	3%
Outside Alaska	6%

Source: ISER Anchorage household survey, October 1988 = 238 responses.

These findings show that it is not only renters who would like to take advantage of depressed prices and rents. A lot of homeowners would also like to be able to move into nicer or cheaper places but are prevented from doing so by negative equity. (However, some homeowners have been able to take advantage of lower prices by buying new homes and renting out their old ones, as we discuss under Table 7 below.)

Anchorage residents who own residential properties for investments feel worse off than other residents – but the differences are not as large as you might expect.

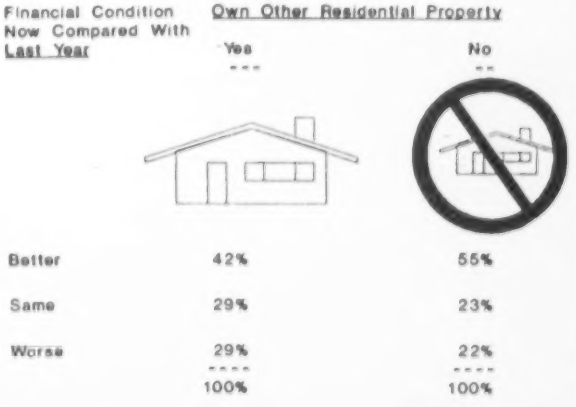
About 14 percent of Anchorage households own residential property for investment – property other than their own homes. Of those, nearly a third reported that their finances had worsened in 1988 (Figure 12). We might expect that owners of rental properties would feel worse off, since rents continued to fall and vacancies to rise in 1988.

But 42 percent of such owners said their finances had improved in 1988. Several things might account for that improvement. Some of the owners probably bought their investment properties after prices had fallen, and so are able to make a profit even at today's lower rents. Also, while overall vacancies continued to rise in Anchorage in 1988, vacancies in some kinds of properties – especially single-family houses – were much lower than the average, and rents in such properties had not dropped as much.

Two-thirds of the households that own Anchorage rental properties say they're making payments without difficulty.

The other side of that finding, of course, is that one-third say it is somewhat or very difficult to meet payments on their rental properties (Table 6). The figures show that there are still serious problems in the housing market but that the majority of rental property owners are holding their own. We asked this question for the first

Figure 12. How Owning Residential* Property Affects Finances of Anchorage Households (Percentage of Responses)



*Residential property other than the respondent's own home.

Source: ISER Anchorage household surveys, October 1988. Respondents who owned other residential property = 56, those who did not = 350.

Table 6
Is it Difficult for You to Make Payments on Your Rental Property?

Very Difficult	14%
Somewhat Difficult	21%
Not Difficult	65%

Source: ISER Anchorage household survey, October 1988 = 56 responses.

time in 1988 and so can't compare responses earlier in the recession.

Half of the Anchorage households that own rental properties previously lived in those properties themselves.

Table 7 shows that of the Anchorage households that owned rental properties in late 1988, half had lived in those properties themselves at one time, and most such properties were single-family houses. It isn't unheard of for homeowners to hold onto their previous homes as rental properties when they buy new ones, but we think at least some of these Anchorage owners kept their previous homes because of the depressed housing market. They wanted to take advantage of lower prices to move into better homes, but the depressed market conditions kept them from selling their existing homes—so they are renting them out.

Owners of single-family houses can probably buy new homes and rent out their old ones more readily than owners of other kinds of property, because single-family houses are more in demand and have fewer vacancies than other kinds of housing. However, as Table 7 shows, some condominium owners have also been able to rent out their previous homes.

Table 7
Did You Previously Live in Your Rental Property?

No	50%
Yes	50%
If yes, what kind of property is it?	
Condo	9%
Single-Family House	38%
Other	3%

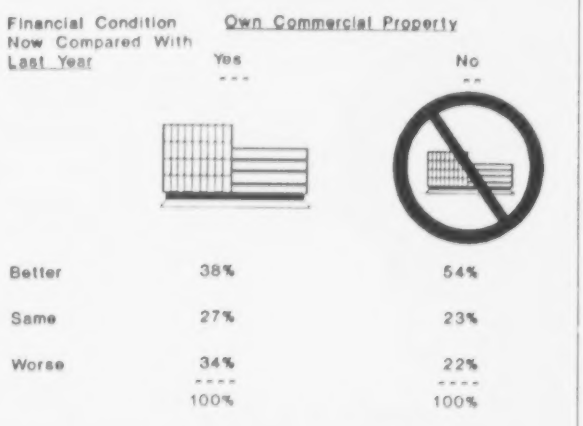
Source: ISER Anchorage household survey, October 1988 = 56 responses.

Owners of commercial properties in Anchorage are much more likely to report deteriorating finances than are other residents—34 percent as compared with 22 percent.

Like the residential real estate market, the commercial market in Anchorage has suffered high vacancies and dropping values in the past several years. Figure 13 confirms that owners of commercial property were more likely than other Anchorage residents to report that their finances had worsened in 1988. However, such households are relatively few—only five percent of Anchorage households have investments in commercial properties.

What is somewhat surprising is that 38 percent of commercial property owners reported improved finances in 1988. Again, probably some of those owners bought in after prices had fallen.

Figure 13. How Owning Commercial Property Affects Finances of Anchorage Households Property
(Percentage of Responses)



Source: ISER Anchorage household survey, October 1988. Respondents who owned other residential property = 22, those who did not = 384.

Also, better quality properties or those in more desirable areas of town have held their value and their tenants better during the recession.

LINGERING SIGNS OF RECESSION

Households Planning to Leave Alaska

About 10 percent of Anchorage households say they are likely to leave Alaska in 1989. That percentage has not dropped substantially since earlier in the recession.

Anchorage's population has always been mobile, with many households moving into and out of the city at any given time. The difference in the past few years has been that so many more left than came in. In 1987 12 percent of Anchorage households said they were likely to leave Alaska in the coming year, as compared with 10 percent in 1988 (Table 8). So it looks as if the proportion of those planning to leave may have dropped off slightly in 1988—but it remained almost twice as high as it had been in 1976, when construction of the trans-Alaska pipeline was winding down.

Most of those who said they were likely to leave cited job-related reasons. Some of those—like military personnel—are routinely transferred from place to place. But certainly some are planning to leave because job opportunities in Alaska are still lacking.

These figures don't mean that Anchorage is likely to lose 10 percent of its population in 1989, because people will continue to move into the city. Between mid-1985 and mid-1988, about 5 people arrived for every 8 that left (Figure 1). We don't have good population figures for late 1988 and early 1989, but the Municipality of Anchorage has reported there are some signs that the population was stabilizing in recent months.[7] Natural increase will also, of course, contribute to population growth in the coming years. It is the future number of households—whether resulting from migration or natural increase—that will have a crucial effect on the housing market and other parts of the economy.

Just 15 percent of Anchorage's population arrived in the city within the past three years. Recent arrivals made up 18 percent of the population in mid-1987 and 26 percent in 1976.

Table 9 shows the effects of dwindling migration to Anchorage over the past three years. By contrast, in 1976, after many people had been drawn to Alaska by the economic boom that accompanied pipeline construction, more than one-quarter of the city's population had been here less than three years.

[7] In early 1989, for example, the Municipality of Anchorage reported that the number of residential telephone lines—used as one indicator of population—appeared to be holding steady and possibly increasing. However, this is not a clearcut measure of population change, because a variety of things can affect the number of telephone lines.

Table 8

Plans to Leave Alaska and Reasons Why

	1976	1987	1988
Is your household likely to leave Alaska within the next year?	6%	12%	10%
Why are you likely to move?			
Job-related reasons	N/A	77%	73%

Sources: *Anchorage Municipal Housing Study,* prepared by Diddy Hitchins, Richard L. Ender, G. Hayden Green, Anchorage Urban Observatory Program, University of Alaska Anchorage, 1976; ISER Anchorage household surveys, June 1987 and October 1988.

Table 9
Percentage of Anchorage Households with Less than 3 Years' Residence

1976	June 1987	October 1988
26%	18%	15%

Sources: *Anchorage Municipal Housing Study*, prepared by Diddy Hitchins, Richard L. Ender, G. Hayden Green, Anchorage Urban Observatory Program, University of Alaska Anchorage, 1976; ISER Anchorage household surveys, June 1987 and October 1988.

The newest households in Anchorage are much less likely to be families with children, and much more likely to be working-age adults with higher incomes.

The portrait of households that had been in the city less than a year as of late 1988 is different in a number of ways from the picture of those who had been in the city less than a year in June 1987 (Table 10). Those differences may show something about how the recession has changed migrants to Alaska.

Only half the new Anchorage households in late 1988 were families, while more than 75 percent of the new arrivals in mid-1987 were families. That may indicate that in the unstable atmosphere of the recession families have been less inclined than single people to move to Anchorage – or that some of those who came here for jobs may have decided not to bring their families along.

Household incomes of the most recent arrivals were considerably higher in 1988 than in 1987. Only 30 percent of the new arrivals in 1987 had annual incomes above $35,000, while nearly 60 percent of the 1988 newcomers had incomes that high. The fact that military personnel made up a bigger share of newcomers in 1987 brought incomes down somewhat, because military salaries are typically lower. But we don't think that accounts for all the difference. It may be that those who came in 1988 came for more specialized, higher-paying jobs.

SUMMARY AND CONCLUSIONS

Our most recent survey gave us a gratifying amount of good news. Anchorage residents who made it through three years of recession or who arrived during the recession have generally higher incomes and more employment than we found among city residents in 1987. Most people we talked to expect 1989 to be a better year than 1988. Thousands of people have been able to take advantage of lower prices and rents to move into nicer housing. Anticipating better times ahead, many are more willing to spend money on vacations or other non-essentials.

But many Anchorage residents who are doing better than they were earlier in the recession believe they have just been lucky – that most of their neighbors are still in the grip of bad times. After so many months of hearing about layoffs, bankruptcies, defaults, and bank failures, many people find it hard to believe that we could be coming out of the recession.

By "coming out of the recession" we don't mean all our economic problems will be gone anytime soon. The recovery will be gradual, and some

Table 10

Portrait of Recent Arrivals*

	June 1987	October 1988
Composition of Household		
Non-family	23%	50%
Family	77%	50%
Annual Household Income		
Less than $35,000	70%	43%
More than $35,000	30%	57%
Military Households		
Yes	32%	12%
No	68%	88%
Age of Household Members		
Under 18	34%	24%
18-59	64%	76%
60+	2%	–

*Households that had been in Anchorage less than 1 year at the time of the survey.

Source: ISER Anchorage household surveys, June 1987 = 99 responses, October 1988 = 61 responses.

parts of the economy – most noticeably construction and real estate – won't recover lost ground for years. Also, the recovery would be set back if oil prices crashed again. Or if the state government made very large, sudden budget cuts – as contrasted with more gradual cuts over time – the economy would again lose jobs and income.

If oil prices hold and the state government is able to reduce the budget while at the same time keeping damage to the economy at a minimum, the recovery should go forward. And as the economy recovers, Alaskans and their government officials need to be aware that some parts will simply recover more slowly than others. What would help Alaska over the long run would be public policies that could at least moderate the boom-and-bust cycles that seem such an inevitable part of Alaska's resource-based economy.

For more than 25 years, the Institute of Social and Economic Research (ISER) has looked at virtually all the major economic and social issues facing Alaska. We publish our research results in a variety of publications. A list, by topic, of hundreds of ISER publications is available from ISER in the library building on the campus of the University of Alaska Anchorage (phone 907-786-7710). Below are brief descriptions of some recent work ISER staff members produced or contributed to. Unless otherwise noted, all publications are available from ISER, University of Alaska Anchorage, 3211 Providence Drive, Anchorage, Alaska 99508.

Stabilizing Alaska's Housing Markets, March 1989. Prepared by ISER for the Alaska Housing Finance Corporation by Matthew Berman and Linda Leask. The 150-page report is available from ISER for $7.00; a 4-page Research Summary (No. 42) is available at no charge.

This is the most recent in a series of reports ISER has done on the Alaska housing markets over the past several years. The report looks mainly at the Anchorage area markets, and discusses likely future trends in population, vacancies, housing prices, and foreclosures. It also looks at how insitutional sellers have come to dominate the market through sales of thousands of properties they have taken under foreclosure in recent years. Finally, the report makes recommendations for helping stabilize the housing market.

The Years of Big Spending: How Good is the Record? ISER Occasional Paper No. 20, 1989, by Gordon S. Harrison. Available from ISER for $2.

This paper takes a broad look at the successes and failures of Alaska state government in handling the immense oil wealth of the first half of the 1980s.

Regional Economic Impacts of State Budget Reductions, ISER Working Paper 89.1, January 1989. Prepared by ISER for the Alaska Office of Management and Budget by Oliver Scott Goldsmith. Available from ISER for 10 cents a page.

This paper describes how a $350 million cut in the state operating budget would affect income and employment in various regions of Alaska. How and when the state government reduces spending has become a critical issue in Alaska in recent years, since falling oil prices sharply reduced state revenues.

Alaska Natives at Risk, December 1988. Prepared by ISER, Kevin Waring Associates, Steven McNabb Associates, and Nan Elliot for the Alaska Federation of Natives. The report is available from the Alaska Federation of Natives in Anchorage.

This work documents the grave health risks and declining opportunities that Alaska Natives face. The report describes high levels of suicide, alcoholism, and accidental deaths among Natives, as well as limited job opportunities and inadequate education. It also includes recommendations for new policy directions and priorities to help ease these serious problems.

Forecast of Electricity Demand in the Alaska Railbelt Region, Draft Report, November 1988; Final Report pending, April 1989. Prepared by ISER and others for the Alaska Power Authority; principal investigator Stephen G. Colt. Available when final from ISER at 10 cents a page.

This work assesses the likely range of demand for electricity in the railbelt region--from Seward on the Kenai Peninsula to Fairbanks in the Interior--through the year 2010. The researchers estimate demand for electricity will likely grow between .2 percent and 1.3 percent annually in the coming years. These projections are important for state officals planning for future energy-generation needs.

Analysis of Electrical End Use Efficiency Programs for the Alaska Railbelt, Draft Report November 1988; Final Report pending April 1989. Prepared by ISER for the Alaska Power Authority; principal investigator Alan B. Mitchell. Available when final from ISER at 10 cents per page.

In this work researchers analyze how much customers in the state's railbelt region could potentially save in the coming years under nine electrical efficiency programs. These programs would involve equipment and use decisions by customers, rather than actions of suppliers.

The Alaska Native Claims Settlement Act, 1991, and Tribal Government, ISER Occasional Paper No. 19, 1988, by Thomas A. Morehouse. Available from ISER for $2.

The author discusses effects on Native political development of the Alaska Native Claims Settlement Act of 1971 and the amendments to that act passed by Congress in 1988. The paper focuses on unsuccessful attempts by leaders of the Native tribal government movement to use those amendments to promote their cause.

Alaska-Soviet Far East Trade: Opportunities and Strategies, April 1988. Prepared by ISER for the Alaska Office of International Trade by Gunnar Knapp of ISER and Elisa B. Miller of the University of Washington. Available from ISER at 10 cents a page; a 2-page Research Summary (No.37) is available at no charge.

This paper discusses potential trade between Alaska and the region of the Soviet Union closest to Alaska, which is known as the Soviet Far East. Such trade will develop gradually and at first will have relatively modest economic impacts--but over time the benefits for Alaska could be substantial, according to the authors. The best opportunities lie in tourism and fisheries, and the authors make recommendations on how the State of Alaska could encourage trade with the Soviet Far East.

Alaska State Government and Politics, edited by Gerald A. McBeath, professor of political science with the University of Alaska Fairbanks, and Thomas A. Morehouse, professor of political science with ISER, University of Alaska Anchorage. Published by University of Alaska Press, 1987, 400 pages. Soft-cover copies $17.00 and hardbound $27.00, plus $1.50 for postage and handling if ordered by mail. Available from University of Alaska Press, Signers' Hall, University of Alaska Fairbanks, Fairbanks, Alaska 99775-1580.

The first book that comprehensively describes Alaska state government and politics is now available from the University of Alaska Press. The book describes the authorities, organization, and functions of state government as well as the people and the events that put life into government operations. It also discusses the private forces that influence government, including the press, public opinion, and interest groups. The book was written by eleven political scientists and one historian, all of whom now teach or previously taught at the University of Alaska. Several of the authors have also been directly involved in state government.

Alaska's Constitution: A Citizen's Guide, by Gordon S. Harrison, former associate professor of political science with the University of Alaska Fairbanks. Published by ISER, Second Edition, 1986, 134 pages. Soft-cover copies $2.00. Available from ISER.

Several thousand copies of this guide to Alaska's constitution were distributed before the 1982 general election, when Alaskans voted on whether to call a constitutional convention to consider revisions to the constitution. It is a concise, article-by article explanation of what Alaska's constitutional provisions mean and how they have been tested since the constitution went into effect in 1959.

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ALASKA
REVIEW OF
SOCIAL AND ECONOMIC
CONDITIONS

University of Alaska Anchorage, Institute of Social and Economic Research June 1989, Vol. XXVI, No. 2

Spending and Earning in the Recession

For a long time Alaska has been known as a place where you could make high wages, but where you'd also have to pay high prices for a roof over your head and food on the table. Earning more but also spending more than other Americans have been facts of life in Alaska.

But how did the 1985-88 recession affect prices and incomes in Alaska? The worst recession in recent memory began with the collapse of world oil prices in 1986 and the subsequent cutbacks in state spending and in oil patch activity. The recession eliminated 25,000 jobs and caused tens of thousands of residents to leave the state. We'd expect such a severe recession to have held down both prices and wages, as businesses struggled to stay open and workers competed for fewer jobs. The most obvious effects of the recession were on the Anchorage housing market, where a dwindling population and rising vacancies pushed down housing prices from 20 to 50 percent or more in the late 1980s.

In 1989 there are hopeful signs that the economy is starting to recover. The Alaska Department of Labor reports that the economy actually created some jobs in late 1988, after losing so many in the previous three years. But the recovery will be gradual and many of the effects of the recession will linger, some for years.[1]

This publication looks at how Alaska prices and incomes changed in the late 1980s, both as compared with their 1985 levels and relative to prices and incomes in other states. Much of our information on living costs is just for Anchorage, but in general price trends in Anchorage – where half of all Alaskans live – will be similar to prices trends in other areas of the state.

Highlights of our findings are summarized on pages 2 and 3.

BACKGROUND AND LONG-TERM TRENDS

Historically a number of things have made life in Alaska expensive. As discussed by ISER economists Arlon Tussing and Monica Thomas in the 1970s, those factors include transportation costs to and within Alaska; high costs of construction exacerbated by uncertainties and delays in shipping and construction due to the state's harsh climate; small size of Alaska markets; seasonal fluctuations in production and sales in many Alaska industries; and rapid changes in industry or government activity that create shortages or oversupplies of goods within the state.[2]

Over the past 20 years or so, the gap between living costs in Alaska and other states has been narrowing, as markets got bigger, transportation improved, and competition increased. The exceptions to that general trend have been periods when fast economic growth in Alaska pushed up wages and prices so that inflation here was greater than in the U.S. as a whole. The best example of such high inflation in Alaska was during the mid-1970s, when construction of the trans-Alaska oil pipeline brought fast population growth and big

(Text continues on page 4)

[1] The economic recovery could, however, be set back by another collapse in oil prices, or by sudden, very large cuts in state spending.

[2] Arlon Tussing and Monica Thomas, "Consumer Prices, Personal Income, and Earnings in Alaska," **Alaska Review of Business and Economic Conditions**, Vol. XI, No. 3, October 1974.

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Spending and Earning in the Recession

The authors of this publication are Marybeth Holleman, ISER research associate; Oliver Scott Goldsmith, professor of economics at ISER; and Linda Leask, ISER's editor. Graphics were done by ISER staff members Rosyland Frazier, Teresa Hull, and Eric Larson.

Highlights of Findings

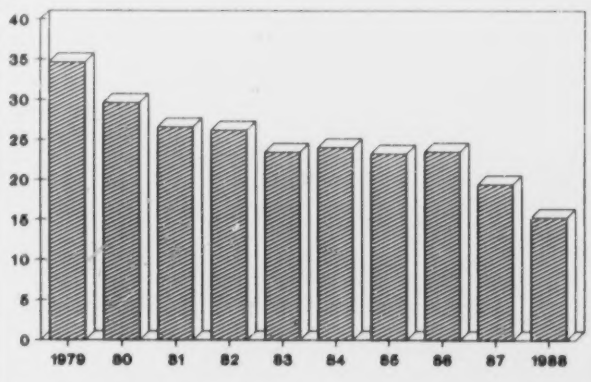
- **The recession held down prices in Anchorage so that by the end of 1988 Anchorage prices overall were just 15 percent above the U.S. average.** That compared with a difference of nearly 25 percent as recently as 1986, and 35 percent in 1979. (Figure 1.)

- **Falling housing prices and rents were largely responsible for shrinking the Anchorage-U.S. price difference in the late 1980s.** The Anchorage consumer price index reported that at the end of 1988 shelter costs in Anchorage were 14 percent lower than they had been in the early 1980s. Housing costs have historically been among the highest costs relative to U.S. averages.

- **Anchorage homeowners who bought houses when prices were at their peak in the mid-1980s are not benefiting from lower housing costs, and face overall living costs about 6 percent higher than homeowners who bought in 1988.** This situation is the opposite of what we would see in a market with stable or rising prices, where new buyers typically have higher costs than existing homeowners.

- **If we exclude shelter costs, prices of most other items in the Anchorage consumer price index increased more than did prices nationwide from the early 1980s through 1988: prices in Anchorage grew 18.6 percent as compared with 17.4 percent nationwide.** That happened because inflation in Anchorage through 1986 was higher than the

Figure 1. Anchorage Prices Relative to U.S. Average, 1979-1988
(Percent Above U.S. Average)



Source: ISER MAP data base.

national average. But in 1987 and 1988, the recession held inflation in Anchorage to about half the national average.

- **Anchorage families paid the lowest state and local taxes of any big-city residents in 1987.** About 3.5 percent of Anchorage family income went for state and local taxes, as compared with a national average of close to 9 percent and as much as 15 percent in some U.S. cities.

- **Some Anchorage households paid virtually nothing for general state and local services in the late 1980s, because they collected more in Permanent Fund dividends than they paid in state and local taxes.** For example, a hypothetical family of four that owned a house valued at $100,000 might have paid about $2,000 in real and personal property taxes and miscellaneous excise taxes in 1988, and have collected about $3,300 in Permanent Fund dividends that year.

- **Medical costs in Alaska continued to rise unabated during the recession.** Daily per inpatient revenues in Alaska hospitals increased 56 percent between 1983 and 1987--an increase that exceeded the very high national growth of 53 percent. Average daily charges to patients in Anchorage hospitals increased more than 90 percent between 1983 and 1988. Those galloping increases mean that unlike other kinds of costs, medical costs in Anchorage remain as high or higher than they have ever been relative to the U.S. average.

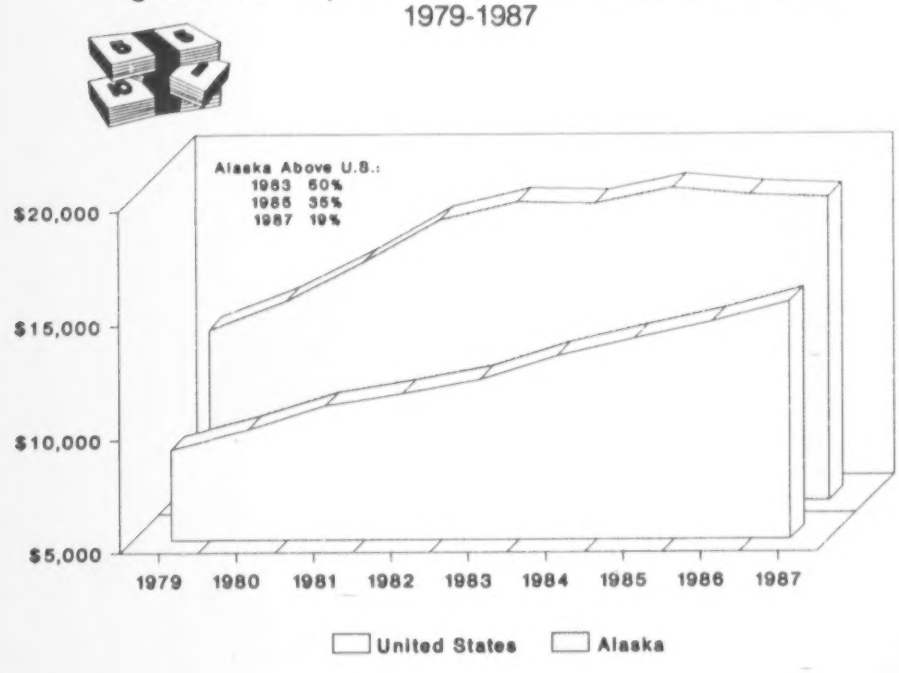
- **Alaska's per capita income, which was 50 percent above the national average in 1983, had dropped to just 19 percent above the U.S. average by 1987.** Alaska's income advantage dwindled sharply as wage rates here stagnated or declined while nationwide incomes continued to grow. (Figure 2).

- **Average earnings of Alaskans dropped 6 percent between 1984 and 1987.** If we adjust for inflation during those years, the real drop was 11 percent. The declining average was due to a combination of stagnant or falling earnings in many occupations, higher unem[illegible]nd a higher percentage of Alaskans workin[illegible]ower paying jobs.

- **The substantial wage increases of the early 1980s--36 percent between 1979 and 1984--were effectively cancelled out by a combination of declines in the late 1980s and inflation throughout the decade.**

- **The biggest contributor to real income growth in Alaska in the 1980s was not wage increases but rather increases in government transfers to individuals.** Government transfer payments to Alaskans under welfare, unemployment, Permanent Fund dividend, and other transfer programs increased 175 percent between 1979 and 1987. Even if we adjust that figure for inflation, real transfer payments doubled during that period. By far the biggest of those transfer programs has been the Permanent Fund dividend program, which paid Alaskans $1.7 billion from 1982 through 1988.

Figure 2. Per Capita Personal Income, Alaska and U.S., 1979-1987



Source: U.S. Bureau of Economic Analysis.

(Continued from page 1)

jumps in prices of housing and other items in limited supply. Housing prices also went up steeply in the early 1980s, during the unprecedented economic boom created when the state government spent billions of dollars in oil revenues.[3] Wages likewise increased during the economic boom that accompanied pipeline construction, and in the boom of the early 1980s.

Overall, for much of the 1970s and the first half of the 1980s, Alaskans enjoyed moderating costs of living—as compared with other states--and wage increases that kept ahead of inflation. Below we describe what happened in the late 1980s to both prices and incomes in Alaska.

CHANGING COSTS OF LIVING

Measuring The Cost of Living

There are two common ways to measure living costs: one measures price changes for a specific group of goods and services in one place over time; the other compares prices between two places at one time. Alaskans now have only the first way of measuring living costs through the Anchorage consumer price indexes, published by the U.S. Bureau of Labor Statistics. Until 1981 the bureau also published annual family budgets for Anchorage and other cities, which allowed us to compare actual prices between places.[4] Although we no longer have a budget series, we know that if prices increase over time more or less in one place than another, then the cost difference between the two places also changes. We can compare price changes as recorded by the Anchorage and U.S. average consumer price indexes over time and infer whether the difference in living costs is increasing or shrinking.

In the following discussion, we show that since the 1982-1984 period, the long-term trend for the rate of price changes shows a narrowing gap between Anchorage and the U.S. While just about all prices have historically been higher in Anchorage, housing, medical services, and federal taxes have been the most expensive. Of these three, costs of housing and taxes have decreased relative to the U.S. average since the early 1980s; medical costs are still as much higher than U.S. costs as they ever were.

Below we look first at broad trends in the Anchorage and U.S. consumer price indexes (CPI) during Alaska's 1985-88 recession. Then we look more closely at housing costs, since it is falling housing prices that have been driving the Anchorage CPI down in recent years. Here we present an ISER household cost index that shows how living costs for Anchorage households are affected by the year homeowners purchased their houses. Next we introduce the Alaska Cost of Living Daily (COLD), a new ISER price survey intended to track prices of selected items that Alaskans buy regularly.

We then show how changes in the federal tax structure have decreased federal income taxes, and how our local and state taxes compare with those in other states. We compare price changes in medical costs, both over time and between Alaska and the rest of the country, showing their continued increase throughout the recession. Finally, we look at the costs of food and electricity, again comparing Alaska to U.S. average costs, and also comparing costs within the state.

1984-1988 Changes in Consumer Price Index

In general, changes in Anchorage prices are linked to changes in U.S. prices, since all states are part of the same national economy, and because almost all items Alaskans buy come from the Lower 48. But because of our volatile resource-based economy, Anchorage experiences ups and downs that are distinctly separate from the national pattern.

According to Table 1, in the second half of 1988, the Anchorage consumer price index was 108.9 and the U.S. city average index was 119.7. This means that prices from the 1982-84 base period through late 1988 increased 8.9 percent in Anchorage and 19.7 percent nationwide, or about 120 percent more nationwide than in Anchorage. But, as Table 1 shows, only the costs of food and shelter have gone up less in Anchorage since the base period—prices of everything else have in-

[3] For a description of the level and kinds of state spending from fiscal years 1980 through 1988, see "Where Have All the Billions Gone?" **Alaska Review of Social and Economic Conditions**, Vol. 24, No. 1, February 1987; and "Where Have All the Billions Gone – II?" ISER Research Summary No. 41, February 1989.

[4] U.S. Bureau of Labor Statistics, **Urban Family Budgets and Comparative Indexes for Selected Urban Areas.**

Table 1

U.S. City Average and Anchorage Consumer Price Indexes
for All Urban Consumers, Second Half of 1988*
(1982-84 = 100)

	Anchorage		U.S.	
	Index	% Change (from 2nd half, 1987 to 2nd half, 1988)	Index	% Change (from 2nd half, 1987 to 2nd half, 1988)
All Items	108.9	0.7	119.7	4.2
Food	114.6	1.5	119.9	5.1
Housing	94.9	-1.2	119.8	3.8
Shelter	86.5	-3.7	128.5	4.7
Renter's Costs	95.3	-2.5	134.7	4.0
Rent (residential)	84.0	-4.0	129.1	3.8
Homeowner's costs	90.4	-3.6	132.7	5.0
Fuel & other utilities	125.7	2.9	105.5	1.4
Furnishings & operation	108.3	4.3	110.2	2.6
Apparel & upkeep	119.6	1.5	117.0	4.2
Transportation	113.8	0.9	110.0	2.9
Medical care	148.6	6.8	140.8	6.7
Medical care services	149.7	5.6	140.5	6.7
Entertainment	120.4	2.3	121.6	4.4
Other Goods & Services	139.9	4.6	139.5	6.9
All Items Less Shelter	118.6	2.3	117.4	4.1

*Since 1987, the Anchorage consumer price indexes have been published just twice a year.

Source: U.S. Bureau of Labor Statistics.

creased as much as or more than in the rest of the U.S.

During the Alaska boom of the early 1980s, inflation was higher in Anchorage. As the boom ended, shelter costs were the first to drop and have dropped most dramatically. In the period from late 1987 to late 1988, the effect of the recession spread to prices in general. From late 1987 to late 1988, the Anchorage consumer price index rose less than one percent, while the U.S. city average increased by 4.2 percent. We expect prices to moderate in a recession, since wages and other costs of doing business are held down in bad economic times.

The main drag on Anchorage's CPI has been shelter costs. Prices of fuel and other utilities, which are a part of housing costs, have risen more in Anchorage than in the entire country. But shelter costs, which are the biggest part of housing costs, increased by 28.5 percent in the U.S. as a whole since 1982-84, while in Anchorage costs decreased by 13.5 percent. Since late 1987, the difference in rates is still dramatic: in the U.S., shelter costs increased 4.7 percent, but in Anchorage they *dropped* 3.7 percent.

Because shelter costs are such a big part of living costs, they carry a heavy weight in the overall price index, and falling shelter costs can bring down the overall index. If shelter costs are excluded from the all items index, the Anchorage index has actually increased more than the U.S. index since 1982-84: an increase of 18.6 as compared to 17.4 percent nationally.

Figure 3 shows annual rates of increase in the all items index and selected items indexes for both Anchorage and the country as a whole from 1984 to 1988. With the economic boom in the early and mid-1980s, the overall rate of price change for Anchorage was higher than the national rate. But since 1987, Anchorage's rate of increase has been less than half a percent, while nationwide it was nearly 4 percent.

Again, the single most important item that has affected how Anchorage's overall rate compares to the rest of the U.S. has been housing costs. In 1984, Anchorage was at the height of a housing boom, created by a fast-growing population. But since 1985, prices have dropped anywhere from 20 to 50 percent in Anchorage, while they have continued to increase nationwide. As jobs disappeared and people left Anchorage in the late 1980s, the high vacancy rate created a drop in housing prices, reflected in the declining shelter costs reported in the CPI.

Excluding shelter costs, the Anchorage rate of price increase was nearly equal to inflation nationwide in 1984, and did not fall below the national average until 1987, as the effects of the recession spread.

The fastest-growing costs both in Anchorage and nationwide continue to be medical costs. In this category, which seems to have been unaffected by the recession, Anchorage not only continues to have very high costs, but also continues to experience higher rates of increase than the rest of the U.S. From 1984 to 1988, the average annual percent increase nationwide was 6.7 percent, while for Anchorage it was 7.4 percent.

Homeowners' Relative Costs

Housing prices have historically been one of the main elements making Alaska's cost of living high. Dropping prices have been holding down the overall CPI for Anchorage in recent years. However, only new buyers and renters can take advantage of these lower prices. The CPI measures only changes in current prices and therefore does not accurately reflect living costs for existing homeowners, especially those who purchased their houses during the boom years when prices were much higher.

Figure 4 compares prices paid by Anchorage homeowners who bought single-family houses in different years. Those who bought in 1984 paid 34 percent more than 1988 buyers, and 42 percent more than 1980 buyers. This shows the steep rise in housing prices up to 1984, and the even steeper decline since 1986. Prices have nearly dropped to their 1980 levels: the cost of a house in 1988 was only 7 percent higher than the cost in 1980.

It's obvious that those who bought houses in the early or mid 1980s have higher living costs than those who bought in 1988—because their shelter costs, which are such a big part of overall costs, are higher. Since the CPI does not measure the current living costs for existing homeowners, ISER used what we know about house prices in different years to compute the difference in overall living costs for households by the year they purchased their homes.[5]

Figure 5 shows how overall living costs compared for new and existing homeowners in 1984 and in 1988. In a typical market, prices would be rising or at least stable and therefore new buyers would be facing higher costs.

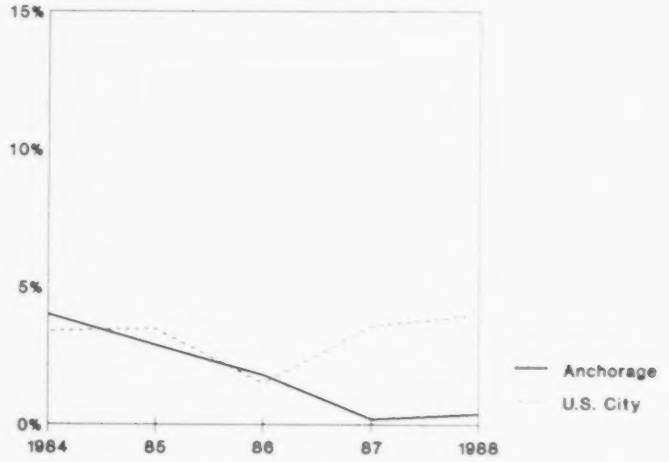
In 1984, new buyers in fact paid higher prices than those who bought in earlier years. So overall costs of existing homeowners were lower than those of 1984 buyers. The cost advantage for existing homeowners was even bigger than we'd expect in a typical market, and clearly shows how the housing boom benefited existing homeowners in the early 1980s. For example, in 1984, those who had purchased their homes in 1980 enjoyed a 7.6 percent lower cost of living than new buyers.

But by 1988, the trend was reversed. Homeowners who purchased houses before 1988 actually have higher living costs than those who bought in 1988 because their mortgage payments are much higher. For instance, a homeowner who bought a house in 1984 faced living costs 6.3 percent higher than 1988 buyers.

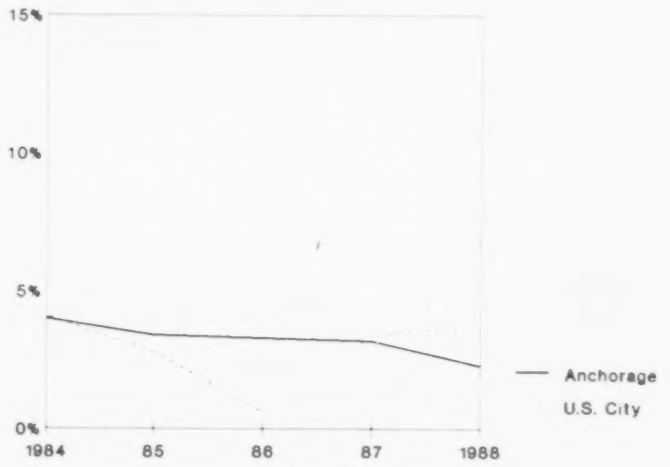
[5]See note on Figure 5 for a description of how we calculated the index.

Figure 3. Annual Rates of Increase, Consumer Price Indexes, Anchorage & U.S. City Average, 1984-1988

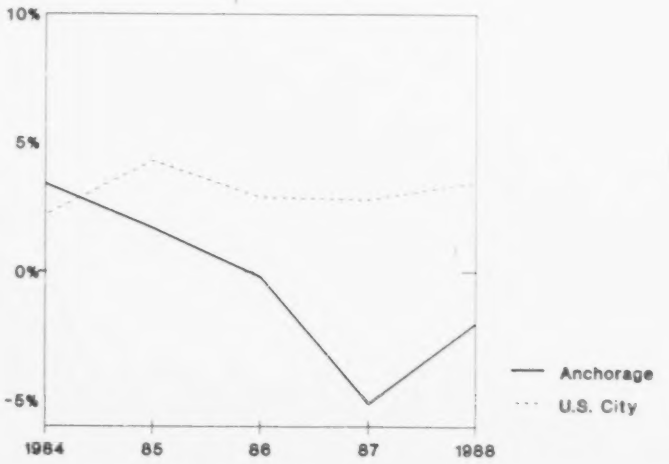
All Items



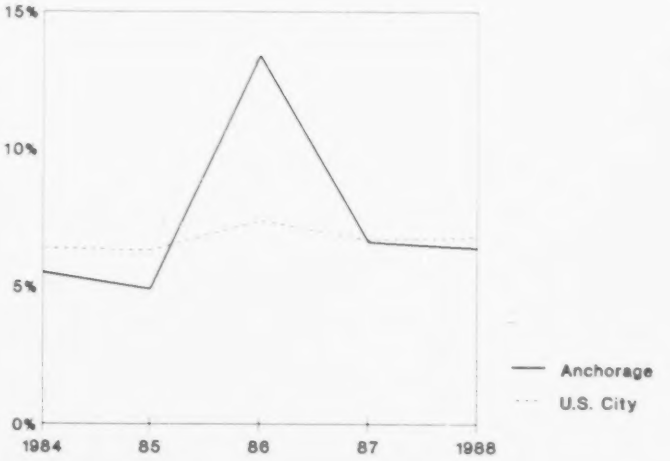
All Items Less Shelter



Housing



Medical



Source: U.S. Bureau of Labor Statistics.

Figure 4. Average Price, Anchorage Single-Family Houses 1980-88

This index measures the changing price of a standard single-family house in Anchorage, adjusted for changes in quality.

Source: Matthew Berman, **Stabilizing Alaska's Housing Market**, ISER, March 1989.

Alaska Cost of Living Daily (COLD)

The CPI is a comprehensive measure of price changes, but it does not show price changes in the way that most people think of them. Most of us notice changing prices of specific items that we buy regularly, like a gallon of milk, rather than thinking of how our total grocery bill is changing. Also, Alaskans tend to buy certain things that we either prefer or need that aren't included in the CPI, like Sorel boots and airline tickets for trips out of state.

Table 2 presents the first Alaska Cost of Living Daily (COLD), a look at prices of selected items in Anchorage. This isn't intended to take the place of the CPI, and in fact it is not an index, but just a list of selected prices. Rather, the Alaska COLD simply offers another measure of price changes that uses specific items people can relate to more readily than to the CPI's broad categories. But because prices of individual items tend to fluctuate much more than broad cost categories, a price list like that in Table 2 is not a gauge of changes in overall living costs.

We selected a representative list of items that people notice most often, either because everyone has to purchase them frequently, or because they are specific to Alaska lifestyles. We compiled current prices for all items and whenever possible included past prices. Unless noted, all historical data is courtesy of the Anchorage Chamber of Commerce. To provide a measure of prices changes over time, ISER will continue to update and publish these prices at regular intervals.

Some items in our list appear to have been affected by the recession, while others have not. Prices of McDonald's hamburgers have increased, most likely because these fast-food businesses have not seen a significant drop in demand during the recession. Both food and child care costs have been held down by the recession, which created less demand and then more competition as the population dropped.

Anchorage property taxes have increased by 88 percent since 1985, showing a trend back toward the higher levels of the early 1970s (see Figure 6). When big oil revenues began flowing into the state treasury, the state began giving more money to local governments. In response, local governments cut property taxes. However, since 1985, the state has been cutting back on funding to local governments, putting more of the burden back onto local sources. Property taxes are by far the biggest local source of revenues. But, as we will discuss next, even with higher property taxes, Anchorage does not have the level or type of taxes levied in most other cities.

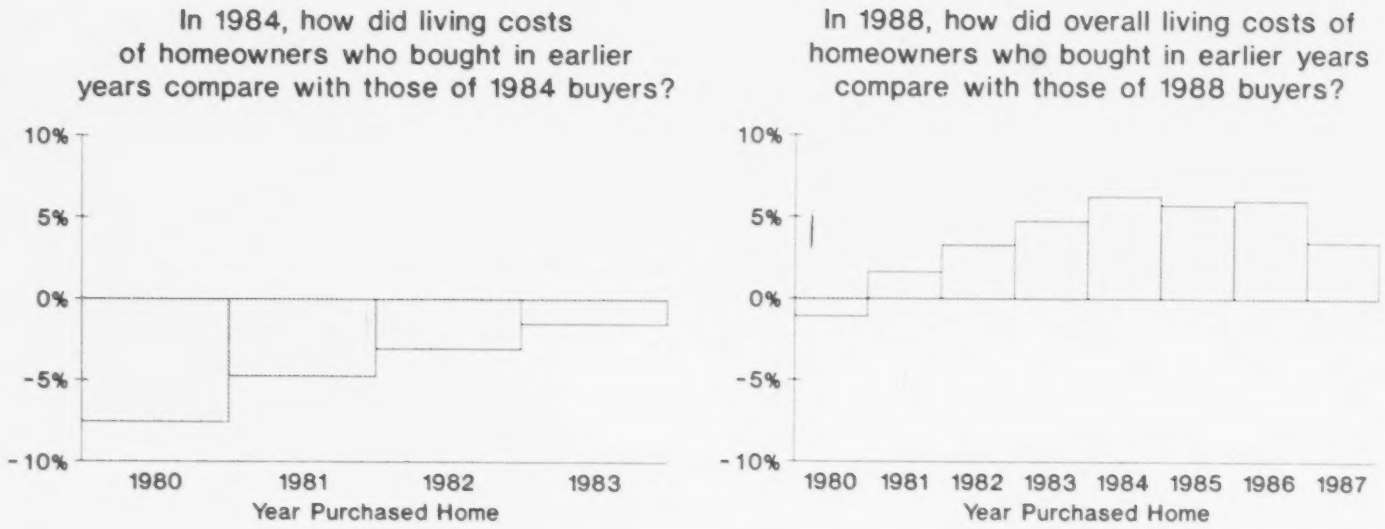
State, Local, and Federal Taxes in Anchorage

When state oil revenues started dropping in 1986, government officials started talking about taxes: whether and when and how to collect more taxes from individual Alaskans.

In the early 1980s, when the state treasury was bulging with oil money, the Alaska Legislature eliminated the state personal income tax and increased aid to local governments so Alaska's cities and boroughs could reduce property taxes. By the late 1980s, state and local officials found themselves between a rock and a hard place. They needed to cut spending or raise taxes or both.

To date the state government has not reimposed the personal income tax. Anchorage and some other municipalities have raised property or sales taxes. How heavy, after three years of recession, is the burden of state and local taxes on Alaskans? We don't have complete tax information for all Alaska communities, but Tables 3 and 4 and Figure 6 show the state and local tax picture in Anchorage.

Figure 5. Comparison of Overall Living Costs* Among Anchorage Homeowners



*This figure compares overall living costs – costs for food, transportation, medical care, and other expenses as well as housing costs – for Anchorage homeowners who bought single-family houses in different years. Housing costs are major parts of overall living costs. The Anchorage consumer price index in the late 1980s has shown very low overall inflation – primarily because house prices, which carry a high weight in the total index, have been falling since the start of the recession. But these CPI figures based on current prices do not reflect the fact that homeowners who bought when prices were higher are not benefiting from reduced prices. ISER economist Scott Goldsmith calculated the differences in living costs for those who bought in various years by combining the house price index in Figure 2 with the "all items less shelter" component of the Anchorage consumer price index.

Table 2

The Alaska Cost of Living Daily (COLD)

	1984-85	1987	1988	1989
King Salmon: lb. (fresh fillet)	N/A	N/A	N/A	$9.46
Milk: 1/2 gal. whole	$1.89	$1.73	$1.86	$1.85
Bananas: lb.	0.62	0.69	0.62	0.69
McDonald's "Quarter pounder"[a]	1.55	1.70	1.91	2.10
Newspaper: month, carrier	4.88	8.70	6.25	7.25
Gas, gallon unleaded[b]	1.09	0.86	0.95	1.10
Seasonal tire change: mount, balance	N/A	N/A	N/A	49.33
Car insurance[c]	787.50	N/A	N/A	829.66
Movie tickets[d]	5.50	6.00	6.00	6.00
Dentist visit[e]	56.00	78.33	81.80	77.00
Birth, routine, 24 hr. stay	N/A	N/A	N/A	1,866.66
Men's jeans	20.00	24.00	26.32	19.98
Women's hairstyle	25.20	21.33	12.80	23.96
Ski lift ticket, adult	20.00	22.00	22.00	25.00
Halibut charter[f]	N/A	N/A	N/A	136.75
Anch-Seattle RT airfare[g]	568.00	851.54	417.67	414.31
Clogged sink/frozen pipe	N/A	N/A	N/A	66.17
Sorel boots	N/A	N/A	N/A	80.00
Child care: month, toddler[h]	435.00	453.33	456.66	463.33
Electricity per KWH[i]	0.06047	0.0636	0.0693	0.0655
500 KWH[j]	36.01	38.53	39.80	39.44
Property tax mill rate[k]	9.91	13.39	16.41	18.62

All 1989 prices are from April except gasoline, which is from June. All historical data from the Alaska Chamber of Commerce in January of each year, except as noted.

[a] 1985 data from Alaska Department of Labor.

[b] 1985 data for regular gas, from "Cost of Food at Home for a Week," Cooperative Extension Service.

[c] Data based on new Chevy Cavalier, from Alaska Division of Insurance.

[d] One Anchorage theater surveyed in 1989 was charging $6.50 per ticket.

[e] 1984 data from Health Insurance Association of America. Not reflected here are the much lower prices being offered by discount dental clinics in the past few years.

[f] Full day weekend, includes cleaning 150 lb. fish.

[g] 1987 – Alaska Airlines only. 1989 – charter available four days a week for $299.

[h] 1985 data from Alaska Department of Community and Regional Affairs.

[i] 1985 data from Department of Labor; 1987-89 data from Chugach Electric.

[j] Includes monthly residential customer charge and fuel adjustment credit.

[k] Highest mill rate, all services, city proper, source: Anchorage municipal tax department.

Figure 6. Anchorage Property Tax Mill Rates* 1972-1989

*Mill rates paid by Anchorage residents with all available services.

Figure 6 shows that the property tax mill rate for Anchorage residents who pay the maximum just about doubled from 1985 to 1989, increasing from 9.9 mills to 18.6 mills. That's certainly a big increase, but part of the reason the increase was so large is that in 1985 property taxes were low – they had been reduced by state money. Also, property taxes that Anchorage residents pay have not gone up as much as these rising mill rates imply, because property values in 1988 are much lower than they were in 1985.[6] Anchorage property taxes throughout most of the 1970s were as high or higher than they are in the late 1980s. In 1976, for instance, Anchorage residents paid a mill rate as high as 20.44.

Tables 3 and 4 show how state and local taxes – income, property, sales, and automobile – varied among cities in 1987, the most recent year for which we have figures. In cities with progressive state or local taxes – that is, taxes that take larger

[6]For a discussion of reduced housing prices in Anchorage in the late 1980s, see **Stabilizing Alaska's Housing Markets**, ISER report by Matthew Berman and Linda Leask, March 1989.

Table 3

Estimated Percentage of Family Income Paid in State and Local Taxes,[a] Selected U.S. Cities, 1987

	Percentage Paid at Annual Income of:				
	$20,000	$35,000	$50,000	$75,000	$100,000
Milwaukee, WI	12.7%	13.3%	14.0%	14.2%	13.9%
Newark, NJ	13.5	13.5	13.8	14.0	13.7
Minneapolis, MN	7.3	9.7	14.0	15.1	15.1
Washington, D.C.	10.4	10.8	11.2	11.6	11.9
Chicago, IL	8.5	8.1	8.3	8.0	7.7
Jackson, MS	7.5	7.7	8.6	8.7	8.5
Seattle, WA	7.4	6.5	6.6	6.2	5.8
Los Angeles, CA	6.2	6.6	8.1	9.4	10.0
Jacksonville, FL	3.5	3.9	4.2	4.2	4.1
Anchorage, AK	**3.9**	**3.5**	**3.5**	**3.4**	**3.2**
U.S. City Average	8.2	8.2	8.9	9.1	9.0

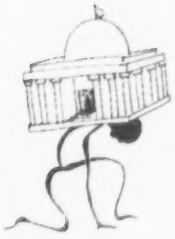
[a]Estimated taxes for a family of four, with husband and wife both working and two school-age children. Includes state personal income taxes, city and state sales taxes, local property taxes, and automobile taxes such as registration fees and gasoline taxes. Calculated for the largest city in each state and the District of Columbia.

General note: Seven states do not have state personal income taxes: Alaska, Wyoming, Texas, Florida, Nevada, Washington, and South Dakota. Among the largest cities in each state, five have neither city nor state sales taxes: Anchorage, Alaska; Manchester, New Hampshire; Wilmington, Delaware; Billings, Montana; and Portland, Oregon. All of the largest cities in the country levy property taxes and some automobile taxes.

Source: Government of the District of Columbia, Department of Finance and Revenue, **Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison**, June 1988.

Table 4

Cities with Highest and Lowest State and Local Taxes*
1987



	Percentage of $50,000 Income paid in Taxes
Highest	
1. Minneapolis, MN	14.0%
2. Milwaukee, WI	14.0
3. Newark, NJ	13.8
4. Bridgeport, CT	13.0
5. New York City	12.9
Average of U.S. Cities	8.9
Lowest	
1. Houston, TX	4.9%
2. Manchester, NH	4.8
3. Jacksonville, FL	4.2
4. Casper, WY	3.8
5. Anchorage, AK	**3.5**

*See note a, and General Note, Table 3.

Source: Government of the District of Columbia, Department of Finance and Revenue, **Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison**, June 1988.

percentages of higher incomes—families with higher incomes can sometimes pay twice as high a percentage in taxes than families at lower incomes. For example, families in Minneapolis with annual incomes of $20,000 paid 7.3 percent of their income in taxes in 1987, while families earning $75,000 or more paid 15 percent. In other cities, tax rates are almost uniformly high for families at all income levels. In Newark, for instance, families earning anywhere from $20,000 to $100,000 in 1987 paid close to 14 percent in state and local taxes.

In Anchorage, where residents pay property and personal income taxes but no state income or sales taxes, rates in 1987 were the lowest for any big city in the country at virtually all income levels. With incomes anywhere from $20,000 to $100,000, Anchorage families paid around 3.5 percent of their incomes in state and local taxes.

Table 4 shows highest and lowest state and local taxes among families that earned $50,000 in major American cities in 1987. Residents of Minneapolis, Milwaukee, Newark, Bridgeport, and New York City paid between 13 and 14 percent of their incomes to state and local governments. Those are cities where residents pay state or local income, property, and sales taxes.

By contrast, in Anchorage and Casper, residents paid less than 4 percent of their incomes in state and local taxes, and residents of Jacksonville, Manchester, and Houston paid less than 5 percent. Alaska and six other states had no personal income tax in 1987, and Anchorage and just a handful of other big cities had no sales taxes. Property taxes in Anchorage have increased since 1987, so if we had more recent figures we would likely see Anchorage families paying more. But it's certain that in 1989 Alaskans still pay far less in state and local taxes than do most other Americans.

Another thing that influences how much state and local governments actually take out of the

Table 5

Estimated State and Local Taxes and Permanent Fund Dividends
1988

General state & local taxes paid by Anchorage family of four[a]	Permanent Fund dividends received by family of four:
Property taxes on $100,000 house: $1,641[b]	
Tax on two cars: $50[c]	
Personal property tax on boat: $33[d]	
Misc. excise taxes: $288[e]	
Total, general state & local taxes: **$2,012**	**$3,304**[f]

[a]By "general" taxes we mean taxes levied on individuals (not businesses) for education and other broad community services. We do not include utility and other user fees that Anchorage residents pay for water, sewer, and other such services they may use. We also exclude license fees.
[b]Taxes at a mill rate of 16.41, which was the rate paid by Anchorage residents living in the bowl area and receiving all available services in 1988.
[c]Automobile tax collected at the time of car registration. This example assumes the family owns two passenger cars, one a 1985 car and the other a 1986.
[d]Estimated personal property tax on a 21-foot fiber glass boat with outboard motor, purchased new in 1982 and assessed at $2,000 by the Municipality of Anchorage's tax assessment office. We assume this boat is stored at the family home in an area of the city subject to an 16.41 mill rate on taxable personal property.
[e]Estimated amount a family of four paid in a variety of state and local excise taxes in 1988, including taxes on gasoline, alcohol, and cigarettes ($72 per capita).
[f]The dividend for individual Alaskans was $826 in 1988; $826 x 4 = $3,304. In fact, the family did not keep this entire amount, because Permanent Fund dividends are taxed under the federal income tax. But the deduction the federal government allows for local property taxes largely offsets the tax on dividends.

pockets of Alaskans is the Permanent Fund dividend program, under which residents collect cash payments from the earnings of the state's Permanent Fund. No other state writes checks to virtually all its residents, with no qualification other than living in the state for a specified time.

Table 5 shows how state and local taxes paid and dividends received might have compared for a family of four in Anchorage in 1988. This is simply a hypothetical example we've constructed; of course actual circumstances of individual taxpayers vary. The hypothetical family paid $1641 in property taxes on a home assessed at $100,000. The family owned two cars, on which they paid taxes of $50. They also owned a 21-foot fiberglass boat, valued at $2,000 by the municipal assessors. Personal property tax on that boat in 1988 would have amounted to about $33. State or local excise taxes on gasoline and other items cost the family an estimated $288. So the total for major state and local taxes in 1988 was about $2,000.

On the other side, a qualified family of four would have collected $3,300 in Permanent Fund dividends in 1988 – $826 each. So in this example, the family would have collected $1,300 more from the state than they paid to the state and local governments. Again, we realize not all Alaskans would have come out ahead this way. For instance, households without children would have collected only half as much in dividends and probably would have paid about the same amount in taxes; in another example, some households pay taxes on more than one piece of property, so their taxes would have been higher. Still, this example gives us a good illustration of how much Permanent Fund dividends offset state and local taxes: in some cases, Alaskans in 1988 actually paid nothing for general state and local services.

But if Alaskans pay relatively low state and local taxes, what about federal taxes? Federal income taxes, as we noted earlier, have historically been one of the costliest items in Alaska relative to other states. The progressive federal income tax, which historically taxed at a higher rate as income increased, took no account of the fact that Alaskans' higher incomes were accompanied by higher living costs. That tax structure meant that Alaskans paid a larger percentage of their incomes in federal taxes than other Americans at the same standard of living. Changes in the federal income tax system in recent years reduced taxes overall and flattened the progressive structure of the tax.

Table 6 illustrates the difference in the 1988 and 1985 federal tax liabilities of a family of four at different income levels. In this example we assume the family consists of a married couple, filing jointly, who have two dependent children and who take the standard deduction rather than itemizing deductions. In 1985, a family with an

Table 6

Federal Income Taxes Paid by Family of Four at Selected Income Levels* 1985, 1988

Adjusted Gross Income of:	Percentage of Income Paid in Taxes 1985	1988
$20,000	8.4%	5.4%
$35,000	14.0	9.5
$50,000	19.1	13.1
$75,000	25.7	18.1
$100,000	30.0	21.3

*Taxes paid by a couple with two dependent children, filing jointly and taking the standard deduction.

Source: Department of the Treasury, Internal Revenue Service, 1985 and 1988 tax tables and schedules.

income of $20,000 might have paid 8.4 percent of its income to the federal government, as compared with 5.4 percent in 1988. Americans with higher incomes still pay larger percentages of their incomes in federal taxes, but not as large a share as they did in 1985. So, as the table shows, a family with an income of $100,000 in 1988 might have paid 30 percent of its income to the federal government in 1985 but just over 21 percent in 1988.

Because the difference between Alaska and U.S. average living costs is not as large as it used to be, and because the tax structure has been flattened, the burden of federal income taxes no longer falls as heavily on Alaskans.

Medical Costs

Although medical costs are a smaller part of an individual's budget than housing costs or taxes, they have become a big issue nationwide as they continue to escalate faster than the overall rate of inflation. Historically they have not only been higher in Alaska than elsewhere, but have also increased at a faster rate.

Medical costs continued a steady increase throughout the recession, and are still as high or higher than they have ever been as compared with the rest of the U.S. They seem to have been unaffected by the recession, probably in part because most consumers have health insurance. Since they see little of their medical costs coming out of their own pockets, consumers are less likely to make adjustments as prices increase. Those without insurance will put off spending money on medical services unless they are absolutely necessary.

Table 7 shows one measure of medical costs – daily per inpatient revenue in hospitals – both over time and among different places. Only California has higher costs than Alaska, but costs there have increased less since 1983. Mississippi, the state with a rate of increase nearest Alaska's, still has an average cost that is 48 percent lower.

Part of Alaska's continued increase may still be due to the boom in the early and mid 1980s. In anticipation of a growing population, both Anchorage hospitals undertook major expansion projects during this period. These improvements are probably still reflected in current prices. (It's worth noting here that medical costs like inpatient charges in Anchorage and elsewhere are going up in part because the nature of the services is changing – that is, independent of other factors, new technology costs more.)

Figure 7 compares these same per inpatient revenues for Alaska and the U.S., clearly showing how costs in Alaska remain not only higher, but also increased faster. Alaska's average daily per inpatient revenues increased 6 percent faster than the U.S. average between 1983 and 1987, and in 1987 were 45 percent higher.

In Figure 8, we look at increases in the average inpatient charge per day in two Anchorage hospitals. Both show significant increases since 1983, but while their charges were nearly equal in 1983, the gap between the two steadily increased between 1985 and 1988. Combined, average inpatient charges per day at Anchorage hospitals increased 92 percent from 1983 through 1988.

Table 7

Daily per Inpatient Revenue in Community Hospitals,
U.S. Average and Selected States, 1983-1987

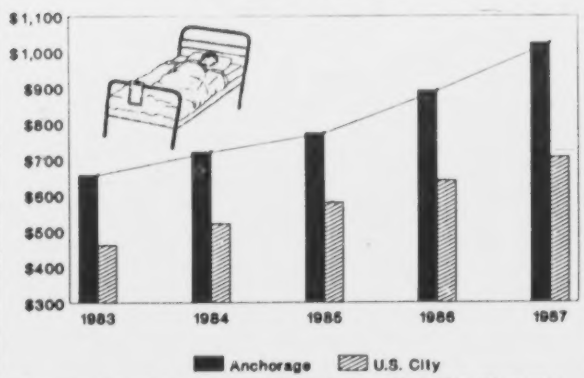
	1983	1984	1985	1986	1987	Increase, 1983-87
U.S. Average	$460.93	$520.41	$578.54	$639.38	$705.55	53%
Alaska	**656.55**	**719.29**	**773.55**	**890.56**	**1,022.79**	**56**
California	731.47	800.66	870.69	962.04	1,056.72	44
D.C.	678.78	765.22	826.96	912.14	1,012.03	49
Washington	499.53	566.50	633.69	709.87	757.79	52
Illinois	527.00	587.52	629.51	674.46	745.59	42
Mississippi	324.34	380.47	427.04	451.37	495.71	53
South Dakota	300.06	324.80	340.90	360.91	374.66	25

Source: American Hospital Association, **Hospital Statistics,** 1984-88 editions.

Food Costs

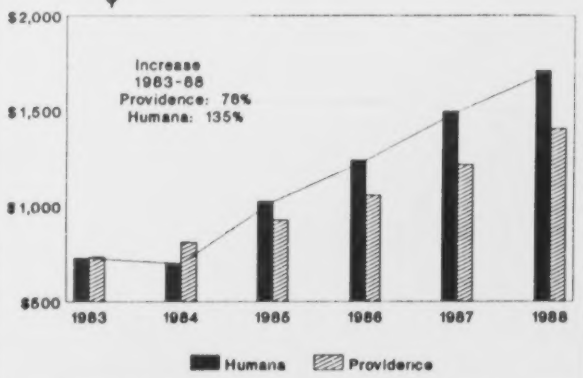
In recent years, food costs in Anchorage have not increased as much as they have elsewhere, as measured by the consumer price index and by the University of Alaska's Cooperative Extension Service. This is in part due to stiff competition among Anchorage grocery stores as the population declined, and to continued improvements in

Figure 7. Daily Per Inpatient Revenue in Community Hospitals, U.S. Average and Alaska 1983-1987



Source: American Hospital Association, **Hospital Statistics,** 1984-88 editions.

Figure 8. Average Daily Charge Per Inpatient, Anchorage Hospitals, 1983-88



Source: Alaska Department of Health and Social Services Medicaid Rate Commission.

transportation efficiency. But prices in remote villages are still significantly higher than in the country as a whole.

Table 8 compares weekly food costs at the end of 1988 in the U.S. and selected Alaska communities, using Anchorage as a base. These figures represent hypothetical weekly food costs of a family with two elementary school children. They are not what the families actually spend, but rather what the U.S. Department of Agriculture has determined would provide adequate nutrition under a low-cost food plan. The University of Alaska's Cooperative Extension Service, which surveys food costs in selected Alaska communities, modifies the plan for Alaska, where fewer kinds of fresh fruit and vegetables are available than in other states. Because they use slightly different methods than in the U.S. average, a comparison between Alaska and the U.S. is not as reliable as one within Alaska.

The costs of buying food under this low budget plan were just about the same in Anchorage and other major Alaskan communities as they were in the average U.S. city in 1988.[7] Ketchikan, easily accessible to Seattle producers, had lower prices than Anchorage, while Fairbanks, Juneau, and Kenai prices were only slightly higher than Anchorage's. However, in Alaska's remote communities, food costs were an average of 50 percent higher than in the rest of the state.

Figure 9 compares these same food costs in the U.S. and Anchorage over time. Anchorage has seen a lower rate of increase than the rest of the country, which has experienced a steady increase in food costs since the low inflation period of 1985-86. Since 1985, prices have converged as U.S. prices rose an average of 14 percent and Anchorage prices rose a more modest 9 percent. However, it's likely that food prices in Anchorage in 1989 will follow the U.S. trend upward.

Table 8

Weekly Costs of Food for a Family of Four, Selected Alaska Communities December 1988

	$	Percent of Anchorage
U.S. Average*	$91.10	99
Anchorage	91.65	100
Fairbanks	94.79	103
Juneau	94.27	103
Ketchikan	88.38	96
Kenai	96.37	105
Kodiak	122.60	134
McGrath	139.70	152
Bethel	141.20	154
Tok	129.50	141
Nome	147.80	161

*Comparisons between the U.S. average and Alaska prices are not as accurate as comparisons within Alaska because of differences in the methodology used in the U.S. and in Alaska.

Source: Cooperative Extension Service, University of Alaska and U.S. Department of Agriculture, low-cost food plan.

Electricity Costs

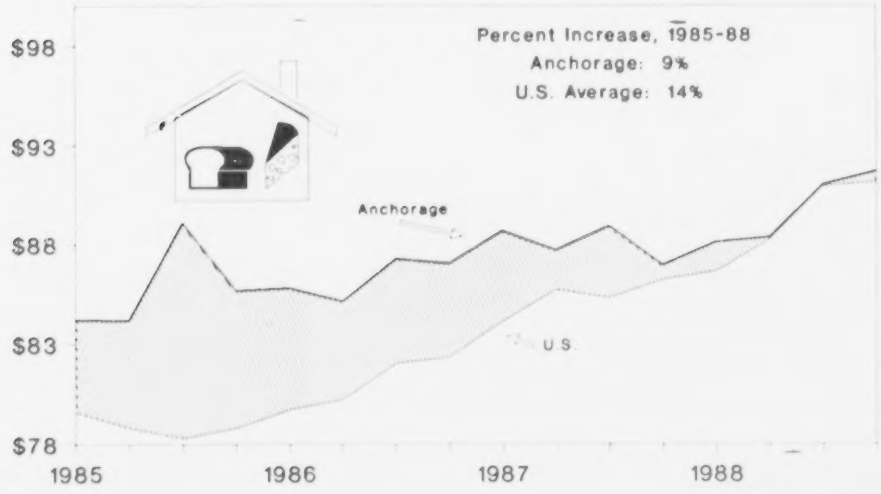
Electricity costs for Anchorage residents have gone up about 11 percent since the early 1980s. But electricity rates in Alaska's rural communities are still far above Anchorage's.

Since many Alaska communities still generate electricity with fuel oil, their electricity costs remain extremely high. Table 9 compares the costs of 500 kilowatt hours (kwh) in Alaska's larger communities and selected remote communities in 1988. Costs vary from $36.75 in Juneau to $268.75 in Teller, a difference of over 600 percent.

Since 1980, the state has subsidized the cost of electricity in some rural communities with higher costs. The Power Cost Equalization Program and previous subsidy programs were designed to equalize the cost per kilowatt hour at a cost close to that of Alaska's larger cities. The subsidy for rural areas is also partially an attempt by state policymakers to balance state money spent for dams to generate electricity for urban consumers, and for the Railbelt Energy Fund, which will benefit mostly urban Alaskans. To date, the program assists 102 utilities serving 170 communities.

[7]Other surveys, such as the quarterly survey of living costs in various American cities by the American Chamber of Commerce Researchers Association, may show higher differentials. ACCRA's survey uses a different market basket of goods and compares different cities each quarter. The ACCRA index for the first quarter of 1989, for example, showed the cost of its market basket to be 28 percent higher in Anchorage than in other cities.

Figure 9. Cost of Food at Home for a Week*



*Low budget plan, family of four with elementary school children.

Source: U.S. Dept. of Agriculture and University of Alaska, Cooperative Extension Service.

Table 9 compares electric costs with and without the PCE program. In Teller, the subsidized rate is still 68 percent higher than Anchorage's. But in Iliamna, PCE subsidies cut the cost from 413 percent higher to only 6 percent higher than Anchorage's. Some communities, such as Glenallen, are not eligible for a PCE subsidy. There, electricity costs remain over 150 percent higher than in Anchorage.

Anchorage and U.S. Relative Cost of Living

The overall effect of the recession has been to bring Anchorage prices much closer to the U.S. average. The recession, by first bringing down growth in housing costs and then in other prices, hastened a long-term trend toward lower relative prices in Anchorage. As we saw earlier in Figure 1, the differential decreased from 35 percent in 1979 to 15 percent in 1988, a drop of nearly half in less than 10 years.

While this is good news for Alaskans, we should remember that these numbers are based on changes in the consumer price index. As we discussed earlier, the CPI does not reflect the cost of living for existing homeowners who paid much higher prices for their houses. It is basically new homeowners and renters who are getting the full benefit of falling relative costs – but all Anchorage residents get some benefit from low overall inflation.

CHANGING INCOMES OF ALASKANS

The recession that cost Alaska 25,000 jobs in the late 1980s was also hard on the incomes of Alaskans who were able to keep working. In this section we look at how earnings and other kinds of income of Alaskans changed in the boom years of the early 1980s and in the recession of the late 1980s. We discuss both how incomes in Alaska changed relative to their pre-recession levels, and how they changed relative to incomes of other Americans.

Table 10 shows the bleak contrast between income growth in the boom days of the early 1980s and income stagnation and decline in the past few years.

Between 1979 and 1984, pay to the average worker increased 36 percent, and the average earnings of Alaskans grew 38 percent. Average income per Alaskan – a figure that includes not only earnings but various kinds of non-wage income – grew 44 percent. Disposable income – income Alaskans have left over after paying taxes – grew even more (49 percent), in part be-

Table 9

Costs of 500 Kilowatt Hours of Electricity, Selected Alaska Communities, June 1988

	Electric Bill, 500 KWH	Power Cost Equalization* (cents/KWH)	Electric Bill, 500 KWH, with PCE	Costs as Percent of Anchorage Costs	
				Unadjusted	Adjusted
Anchorage	$39.80	(None)	–	100	100
Juneau	36.75	(None)	–	92	92
Fairbanks	55.71	(None)	–	139	140
Homer	55.36	(None)	–	139	139
Ft. Yukon	150.09	18.02	59.99	377	151
Bethel	98.48	8.27	57.13	247	143
AVEC Villages	199.20	26.39	67.25	500	169
Barrow	40.00	(None)	–	100	100
Bettles	240.50	30.66	87.20	604	219
Valdez	87.00	(None)	–	219	218
Glenallen	100.10	(None)	–	251	251
Klawock	163.85	22.11	53.30	412	134
Kotzebue	110.66	10.37	58.81	278	148
Teller	268.75	40.37	66.90	675	168
Iliamna	204.10	32.32	42.50	513	107

*The Power Cost Equalization Program, administered by the Alaska Public Utilities Commission, pays a portion of electricity bills – up to 750 kwh per month for residential customers – to participating utilities. The program is intended to bring electric costs in areas with high generation costs down to a level close to that for Anchorage, Fairbanks, and Juneau. The PCE amount, set by the commission, varies among utilities. In 1988 the program paid from 2 cents to 41.80 cents per kilowatt hour.

Source: Alaska Public Utilities Commission, 1988 Annual Report to the Alaska Legislature.

cause the state personal income tax was eliminated at the start of the 1980s.

But the biggest growth came in sources of income other than earnings: dividends, interest, and rent on assets of Alaskans, and what the government calls "transfers" – private and government pension plans, and payments to individuals under various programs, including wel-

Table 10

Summary of Changes in Income of Alaskans
(in Percentages)

	Nominal Growth			Real Growth (Net of Inflation)		
	1979-84	1984-87	1979-87	1979-84	1984-87	1979-87
Pay to Average Worker	36%	−3	32	5	−8	−3
Average Earnings of Residents*	38	−6	29	6	−11	−5
Average Dividend/Interest/Rent	82	14	107	40	8	51
Average Transfers	74	57	174	34	50	100
Average Personal Income	44	1	45	10	−3	8
Average Disposable Income	49	2	52	14	−1	13

*Change in average earnings is partially the result of changes in the labor force participation and unemployment rates as well as in the composition of employment.

fare programs, unemployment benefits, and Social Security. In Alaska, transfer payments also include Permanent Fund dividends and Longevity Bonus payments. During the years when Alaskans' earnings were growing and real estate was appreciating rapidly, the average dividends, interest, and rent collected by Alaskans increased more than 80 percent. Transfer payments increased nearly 75 percent, largely because the Permanent Fund dividend program was established. In 1982, the first year of the program, the state government paid Alaskans almost $480 million.

The income picture for Alaskans in the early 1980s is not as bright when we adjust the figures for the effects of inflation during that period. As the right side of the table shows, earnings grew just 6 percent faster than inflation, and average income about 10 percent. Still, the figures show that incomes of Alaskans were keeping well ahead of inflation. Growth in transfers and other non-wage income during the early 1980s was very substantial—between 35 and 40 percent—even after we subtract inflation. Altogether, Alaskans came out of the boom with bigger paychecks, more valuable assets, and a new annual check from the state government under the Permanent Fund dividend program.

But after the boom came the bust. Pay to the average Alaska worker declined 3 percent between 1984 and 1987 (the most recent year for which we have figures), and if we adjust for inflation, the real drop was 8 percent. The average earnings of residents dropped 6 percent during that period, and earnings adjusted for inflation were down 11 percent.

Average personal income of Alaskans eked out a 1 percent increase, largely because transfer payments continued to grow briskly during the recession. Part of the growth in transfers was the growing size of Permanent Fund dividend checks in the past few years, but it was also a reflection of hard times: increased payments under unemployment and welfare programs. Inflation in Anchorage during the recession was modest, but it still was enough to create a real loss of 3 percent in average personal income.

Overall during the 1980s—balancing out the boom and the recession—the average Alaskan saw his earnings go up more than 30 percent, but all of that growth was cancelled out by inflation during the decade. Average personal income increased a nominal 45 percent from 1979 through 1987, but inflation left only 8 percent real growth during the period. And as Table 10 makes clear, that growth was due to increases in transfer payments and dividend, interest, and rent income rather than increases in earnings.

Growth in Non-Wage Income

If transfers and other non-wage sources of income grew faster than earnings during both the economic boom and the subsequent bust, we would expect those non-wage sources to have become a more important part of total Alaska income over the past decade. As Table 11 shows, that is what happened: between 1979 and 1987, non-wage income increased from 15 to 25 percent of total personal income in Alaska.

During the economic boom, the wealth of Alaskans—as reflected by the rapid growth in property rents, bank account interest, and other non-wage income—was increasing at a healthy rate. Such income even continued to grow during the recession, although at a much slower pace. More dividends, interest, and rents in the pockets of Alaskans mean good news for the economy because those kinds of income provide diver-

Table 11

Changes in Alaska Non-Wage Income, 1979-1987

	Percent of Personal Income from Non-Wage Sources:
1979	15%
1980	16
1981	16
1982	19
1983	20
1984	19
1985	22
1986	24
1987	25

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, **Local Area Personal Income**, 1976-81 and 1981-86, July 1988; and **Survey of Current Business**, August 1988.

Table 12

Payments Under Selected Alaska Transfer Programs, 1983-1988
(In millions of Dollars)

	1983	1984	1985	1986	1987	1988
Permanent Fund Dividend	$478	$187	$160	$210	$293	$375
Longevity Bonus*	28	29	44	44	47	50
Unemployment Insurance	N/A	104	135	169	139	101
Public Assistance*	N/A	49	57	63	72	78

*Figures for Longevity Bonus payments and Public Assistance programs are for fiscal years. The Public Assistance programs included are Aid to Families with Dependent Children (AFDC) and Adult Public Assistance.

sification and some stability during economic ups and downs.

Transfer payments are also a source of spending money independent of wages, but growth in transfer payments in Alaska during the recession was in many cases a sign of hard times. As Table 12 shows, out-of-work Alaskans collected nearly $170 million in unemployment benefits in 1986 alone – an increase of more than 60 percent from 1984. Also growing were payments under various public assistance programs, which include Aid to Families with Dependent Children (AFDC) and Adult Public Assistance. Payments under those programs increased from $49 million in fiscal 1984 to $78 million in fiscal 1988.

But by far the biggest transfer program in Alaska in the 1980s is not tied to need of the recipients: the Permanent Fund dividend program, under which virtually all Alaska residents collect annual checks from the earnings of the state's Permanent Fund. From 1983 through 1988 Alaskans received $1.7 billion in Permanent Fund dividends, and payments under this program played a very large part in the continuing growth of transfers during the recession. Another growing transfer program – although only a fraction of the size of the dividend program – not linked to need is the Longevity Bonus program, which pays Alaskans over 65 $250 per month. That program paid out about $250 million between 1983 and 1988, with payments of $50 million in fiscal 1988 nearly double what they were in 1983.

Changes in Alaska Earnings

As we pointed out earlier, average earnings of Alaskans dropped in the late 1980s. A drop in average earnings can be the result not only of reduced wages in some occupations but also of changes in the composition of the work force and in the labor force and unemployment rates. For instance, when more people are out of work, average earnings come down. Also, if more people hold lower-paying jobs, that also brings down the average.

We know that thousands of jobs that disappeared in the late 1980s were construction jobs – and since construction jobs have historically been among the highest paying in Alaska, the loss of such jobs was partly responsible for bringing down the average.

We also know wages in certain kinds of occupations suffered more in the recession. Although a big share of the jobs Alaska lost were high-paying construction jobs, wages for the construction jobs that remained did not fall as much as did wages in some other occupations. Table 13 shows which industries paid the most and which the least in Alaska in the late 1980s, and how the earnings in the high and low paying occupations fared betwen 1985 and 1987.

The best paid jobs in Alaska are in the oil and gas industry, and those wages went up an average 6 percent from 1985 through 1987. (Even though some oil and gas workers lost their jobs after oil prices crashed in 1986, average pay for the

Table 13

Change in Average Monthly Wage, Alaska Industries, 1985-1987

Rank in Average Pay, 1985		
	All Industries	−3%
1.	Mining	+5
	Metal mining	+14
	Oil & Gas	+6
	Other	−17
2.	Construction	−3
3.	Trans., Comm., & Public Utilities	−6
	Trucking & Warehousing	−33
	Water Transportation	−3
	Air Transportation	+2
	Other Transportation	−7
	Comm. & Public Utilities	−2
4.	Government	+3
	Federal	+5
	State	+2
	Local	+3
5.	Finance, Insurance, & Real Estate	+4
6.	Manufacturing	+5
	Food Processing	+6
	Logging-Lumber	+8
	Other (including pulp)	+2
7.	Services	−8
	Hotels, Motels, Lodges	+2
	Personal Services	−4
	Business Services	−13
	Medical Services	−2
	Other	−12
8.	Miscellaneous	+6
9.	Trade	−7%
	Wholesale	−4
	Retail	−7
	Gen. Mds. & Apparel	−2
	Food Stores	−1
	Automotive & Svc. Stations	−7
	Eating & Drinking places	−11
	Other Retail	−10

Source: Alaska Department of Labor, **Statistical Quarterly**, 3rd Quarter 1986; 2nd Quarter 1988.

remaining workers was up.) Construction work is still the next best paid work in Alaska, although there are a lot fewer jobs than there were in the early 1980s. Construction wages dropped an average 3 percent between 1985 and 1987.

The third highest paying jobs in Alaska are in the transportation, communication, and utilities industries. But overall between 1985 and 1987 average earnings for those kinds of jobs dropped 6 percent. Within that broad category, truck drivers, warehousemen, and related workers were hardest hit, with pay down a third between 1985 and 1987.

Government workers are fourth in pay among Alaska occupations. Average earnings of federal, state, and local government employees went up 3 percent between 1985 and 1987, with the biggest increase for federal workers and the smallest for state employees. State and local workers have mostly been working under wage freezes since the start of the recession, and some were laid off in 1986 and 1987. Workers most likely to lose their jobs were those at the lowest pay and with the least seniority—so to some extent the higher average wages may mean that more of those earning higher wages kept their jobs.

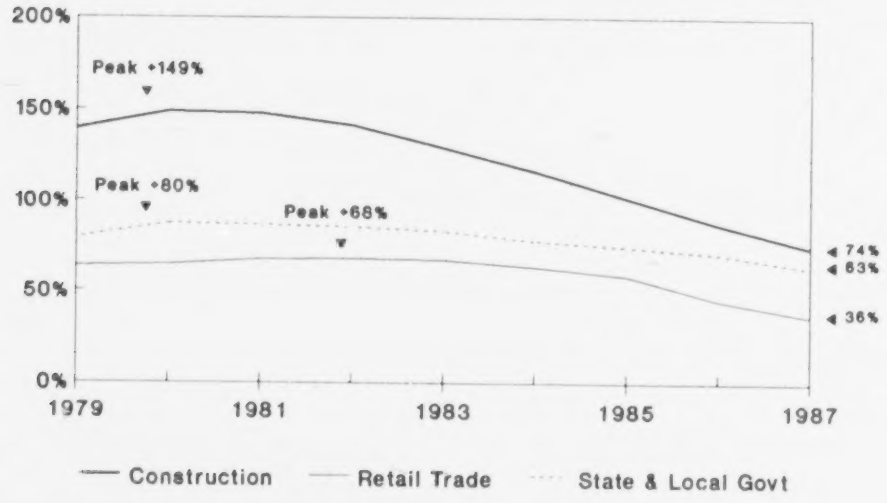
After government workers, Alaskans in finance, insurance, and real estate jobs are the next best paid, and their average earnings went up 4 percent between 1985 and 1987—even as many jobs in banking, real estate, and related occupations were disappearing. Again, to some extent that increase may reflect the fact that workers most likely to keep their jobs are those with the most seniority—and those with the most seniority tend to earn more.

The poorest paid occupations in Alaska are in the trade and service industries—and it was those occupations that saw the biggest wage drops between 1985 and 1987. Waiters, gas station attendents, store clerks, hairdressers, and others in trade and service jobs saw their average earnings drop as much as 10 percent. The figures in Table 13 provide some evidence that the costs of the recession fell heaviest on those who could least afford to pay them.

Relative Alaska-U.S. Earnings

Figure 10 provides another measure of the effects of the recession on earnings of Alaskans: it

Figure 10. Average Earnings in Selected Alaska Industries, 1979-1987
(Percent Above National Average)



Source: ISER calculations from U.S. Bureau of Economic Analysis data.

shows how earnings in selected Alaska occupations changed relative to average earnings in those occupations nationwide. The figures shows how relative earnings in construction, retail trade, and government changed from 1979 through 1987. As we pointed out above, construction jobs are among the best paid in Alaska, government jobs are in the middle, and retail jobs are near the bottom.

The figure shows that in 1981, when the Alaska boom was moving into full swing, construction earnings in Alaska were nearly 150 percent above the U.S. average. Retail workers in Alaska in 1982 were earning 67 percent more than their counterparts in other states. Government employees in Alaska earned on average 87 percent more than government workers elsewhere in 1980.

All those differentials have come down sharply in the past few years, although Alaskans by and large still enjoy higher earnings than other Americans. By 1987, construction earnings in Alaska were about 75 percent higher than in other states – about half as high as they had been relative to earnings in other states. Clerks and other retail workers here earned about 36 percent more than other American retail workers in 1987. Alaska government workers earned about 63 percent more than other government workers that year.

Alaska's advantage has declined in recent years due to a combination of falling or stagnant Alaska wages and growing wages elsewhere in the country. But is there any good news to be found in declining relative wages? A little. Alaska's higher wages have long attracted non-residents who come in, take jobs, and leave with their pay. As Alaska wages become less attractive relative to those in other states, we would expect fewer non-residents to come here to work. And, as Table 14 shows, that seems to have been happening: more of Alaska earnings have been going to

Table 14

Percent of Alaska Earnings Paid to Resident Workers*

1984	88.0%
1985	88.0
1986	91.3
1987	93.0

*Annualized figures; do not include agricultural or federal workers.

Source: "Nonresidents Working in Alaska," Alaska Department of Labor, January 1987, 1988, 1989.

Table 15

Per Capita Personal Income, Alaska & U.S., 1979-1987

	Total		Disposable*	
	Alaska	U.S.	Alaska	U.S.
1979	$12,582	$9,033	$10,371	$7,680
1980	13,835	9,919	11,572	8,424
1981	15,492	10,949	12,625	9,240
1982	17,371	11,481	14,422	9,721
1983	18 164	12,098	15,204	10,350
1984	18,093	13,114	15,417	11,257
1985	18,793	13,896	16,314	11,863
1986	18,479	14,608	16,105	12,492
1987	18,353	15,482	15,842	13,145

*Minus federal, state, and local taxes.

Source: Regional Economic Information System, U.S. Bureau of Economic Analysis, April 1989.

Alaskans in the past few years. This is good news because it means more money earned in Alaska circulates through the Alaska economy. In 1984, Alaskans earned about 88 percent of wages paid in the state. By 1987, that share had increased to 93 percent.

Relative Alaska-U.S Per Capita Income

We've just discussed how Alaska earnings have changed relative to average U.S. earnings in the late 1980s. Now we look at how relative per capita incomes – which include wages as well as other kinds of income – have changed. Historically Alaskans have enjoyed higher incomes than other Americans, at least partly to offset the higher costs in Alaska. Table 15 and Figure 2 (located in the earlier Highlights section) show how the U.S. and Alaska per capita personal incomes and disposable incomes – what we have left over after taxes – changed from 1979 through 1987, the most recent year for which we have final figures. The federal Bureau of Economic Analysis arrives at these numbers simply by taking total personal income for each state and dividing it by the population to come up with a per person figure.

In 1979, Alaska per capita income stood at $12,582, which was nearly 40 percent higher than the U.S. average of $9,033. That gap grew to 50 percent by 1983 as Alaskans enjoyed the boom created when the state government spent billions of dollars in Alaska.

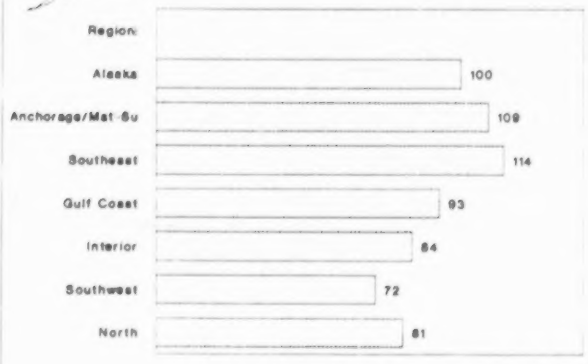
By 1985, however, Alaska income stopped growing while U.S. incomes continued up. Between 1985 and 1987, Alaska per capita income dwindled nearly 3 percent while U.S. income went up 11 percent. So by 1987 Alaska per capita income stood less than 19 percent above the U.S. average, as compared with 50 percent above just 4 years earlier. Alaskans were able to hold onto a bit more of their incomes after taxes than other Americans did in recent years, because the Alaska state personal income tax was eliminated in the early 1980s and because changes in the federal tax system reduced tax rates for higher incomes.

We don't yet have final income figures for 1988, but preliminary figures from the U.S. Bureau of Economic Analysis indicate Alaska incomes may have started back up in 1988. What is clear right now is that the recession very sharply cut but did not eliminate Alaskans' income advantage.

Alaska Regional Income

Not all Alaskans share the state's relatively high incomes. Historically incomes of rural Alaskans have been much lower than those of urban residents. Figure 11 shows that in 1987 the highest per

Figure 11. Relative Per Capita Income
Alaska Regions, 1987
(Alaska = 100)



Source: ISER calculations.

capita income was in southeast Alaska (where the state capital is located), at 114 percent of the state average and the lowest was in the southwest region, at just 72 percent of the state average. Per capita income in Anchorage was 109 percent of the state average, while income in other regions ranged from 80 to 93 percent of the Alaska average.

So it's apparent that rural incomes are still considerably below urban incomes, but the disparity is not as great as it used to be. In 1982, for instance, some areas of southwest, interior, and northern Alaska had incomes that were as little as half the state average. The gap between urban and rural incomes has narrowed somewhat over the past decade because more state government money flowed into rural areas, and because urban areas in particular were hurt by the recession.

SUMMARY

Overall, the severe Alaska recession of 1985-1988 brought down Anchorage's high costs of living relative to other states, but it also sharply reduced Alaskans' incomes relative to those of other Americans. (Figures 1 and 2.) Those changes mean good and bad news for Alaskans. Relatively lower living costs are good news, because they mean dollars of Alaskans stretch further. Reduced wages are bad news for individuals, particularly those who carry high mortgage costs they incurred in the years when housing prices were much higher than they are now. To the extent that lower relative wages decrease the costs of doing business and thereby increase competitiveness of Alaska businesses, they are good for the economy.

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